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PREFACING OPINIONS.

(i)

R. F. HARROD

In a Preface to *National Reserves for Safety and Stabilization*, published early in 1939, I wrote: "Mr. St. Clare Grondona's proposals have the double merit of being clear-cut and of springing logically from an analysis of our present system. . . . His plan has commendable breadth of scope and simplicity of outline. It deals with matters that are of urgent importance and proposes treatment on a scale worthy of the problems. . . . May his lucid advocacy of what is indeed an orderly advance galvanize our leaders into action".

I see no reason, now, to alter those views. In the interim, proposals for commodity reserves, administered in various ways, have been much discussed, notably in the negotiations between Britain and the United States during the war. But these discussions have been still-born.

Before, during and shortly after the war, the chief emphasis in such discussions was usually in relation to a world slump; the proposals were designed to uphold the incomes of primary producers and also to prevent the serious repercussions which the decline in their incomes and their demand for products had on employment in industrial countries. Nowadays we have ceased to worry so much about the world slump. But we should not be too complacent on that score; not enough time has yet elapsed for us to be quite sure that the higher activity that has been sustained in the world has not been due to post-war reconstruction needs, supplemented by the demands arising from the Korean War and the great rearmament programmes.

Utilizing World Abundance

An important consideration germane to the proposals in this book relates to the desirability of having higher investment in under-developed countries. A serious deterrent to this is the insecurity resulting from fears of wide oscillations in the prices of the primary products on which such countries rely for their incomes and external balances. A system such as that proposed in this book would go far in creating the confidence in their economic stability that is essential if the finance and resources needed for higher investment are to be attracted to them.

The implementing of Mr. Grondona's proposals could be a first step in the direction, so much and so long desired by all bent on monetary reform, of linking the value of currency to commodities; a highly relevant consideration when there is so much fear of chronic and cumulative inflation.

As Mr. Grondona would agree, exhaustive study would be essential before one could endorse his proposals in detail, but I strongly support his basic principles. Our first task in the monetary sphere is to take the final steps in establishing the dollar convertibility of sterling. It is a bold idea that Britain should go forward with her own plans even if other countries do not simultaneously set up their own commodity reserves. The feasibility of this would have to be seriously considered. I should not in the least mind swapping some of our gold now held in reserve for reserves of commodities.

The great merit of Mr. Grondona's proposals are that they are clear-cut and precise. They could be modified in all sorts of ways. It is much to be hoped that the responsible authorities will give most serious consideration to the far-reaching suggestions in this book.

Christ Church,
Oxford,
August 1957.

R. F. Harrod.

PREFACING OPINIONS.

(2)

By GRAHAM HUTTON

I FIRST became impressed by Mr. St. Clare Grondona's proposals in the 1930s. Had they then been put into effect, much of the international trouble preceding the second world war could have been avoided or alleviated. Great Britain's postwar economic situation might well have been stronger.¹ However, the approach and outbreak of war—a long upheaval and aftermath—prevented Mr. Grondona from securing the attention for his proposals that they merited. But he was afforded time in which to iron-out certain difficulties which some of us had already discussed with him.

His system, as improved and perfected, is more practical and timely now than ever—particularly in its application to wheat. If H.M. Government were to put this system into early effect, I have no doubt that its logic and equity would strongly appeal to both Canadians and Americans. With their co-operation, great material advantages could accrue both to them and to us.

In my view, as well as in that of many other economists here and abroad, Britain and Western Europe are likely—in the long term—to find the costs of industrial raw materials rising differentially against the prices of the exported manufactures with which alone they can buy them. Therefore, if—at any stage—a temporary price decline led to the establishment of substantial reserves administered as suggested by Mr. Grondona, the advantages that would accrue to user-industries upon the subsequent rise in the prices of commodities so held needs no emphasis.

¹ See Appendix IV

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Accordingly, I think the time is opportune for his ideas in their latest form to be spread abroad. I hope his new book will have far-reaching results. Its purpose is to demonstrate that the system he advocates:

- (a) could help to counter inflation;
- (b) is economically desirable, sound and practicable;
- (c) is basically different from any superficially-similar projects hitherto propagated or tried;
- (d) is not to be confused with Government bulk-buying or Government trading, from which it differs fundamentally;
- (e) would not put any appreciable strain (internal or external) on the nation's finances;
- (f) when in operation, would in no way hamper the legitimate functioning of free market dealings; and
- (g) could gradually provide a firmer foundation for our national economy.

I believe those claims are warranted; and that, after this published description of the automatic working of the System as proposed, there ought to be a good prospect of its being taken up, not only by our own Government, but by others.

London,
August 1957.

Graham Hutton

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"Let Pharaoh do THIS, and let him appoint officers over the land. . . . And let them gather . . . and lay up corn . . . and let them keep food in the cities. . . .

And Joseph gathered corn as the sand of the sea, very much, until he left numbering, for IT WAS without number. . . .

And when all the land of Egypt was faunished, the people cried to Pharaoh for bread. . . .

. . . And Joseph opened all the storehouses, and sold unto the Egyptians, and the famine waxed sore in the land of Egypt. . . .

And all countries came into Egypt for to buy corn; because the famine was so sore in all lands."

GENESIS xli, 34-57

THE PROPOSED SYSTEM SUMMARIZED

THE OBJECTIVE

This system is designed to lead to the stabilization of the purchasing power of the £ (and ultimately of other nations' currencies) in terms of those essential durable basic commodities on the continuity of supply of which the whole economic superstructure depends; so that market prices for these shall then be at realistic levels with fluctuations limited to a pre-notified range equitable to producer, trader, and industrial user. The degree to which this system is analogous in principle—but not in detail—to the method whereby the price of gold was effectively stabilized from 1840 till 1914, and to the purpose and functioning of the Exchange Equalization Fund is shown on pages 21 to 24.

A STATUTORY PRICE STABILIZING CORPORATION

It is proposed that there should be established a British Price Stabilizing Corporation (P.S.C.) financed by Government-guaranteed Bonds, and as aloof from interference as is the Judiciary. Operating automatically, it would be concerned only with basic commodities which are both durable and convertible into a wide range of consumer and/or capital goods in widespread and continuing demand. Such basics include grain, textile raw materials, rubber, the industrial metals, and many other products in crude or early-processed form. Each product brought under P.S.C. auspices would be said to be (conditionally) valorized—that is, given a minimum value in sterling.

COMMODITY Points

By the application of such a formula (in principle) as appears on page 30, each product would have its own "valorizing index." P.S.C. would then stand ready to

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buy it on delivery, but only at 10 per cent *below* index—the level of valorization; and, if and when it acquired stocks on that basis, it would sell on demand—but only at 10 per cent *ABOVE* index. These would be a commodity's *points*—the low *point* being effective from the outset; with the *HIGH point* effective only when P.S.C. held stocks. It would buy and sell only in pre-specified large "parcels," perhaps 5,000 tons of one product, and 100 tons of another. Its stores, sited to suit the trade concerned, would be compartmented accordingly.

AUTOMATIC Points-ADJUSTMENT

P.S.C. would never "enter the market." It could operate only on the initiative, first, of sellers and, then, of buyers—neither having recourse to it excepting as a last resort. The usual volume of trade would continue in the ordinary way of business. When P.S.C. acquired stocks, these would be regularly publicized. If and when reserves of any product aggregated what would be known as a BLOCK—a pre-notified volume which might equal $12\frac{1}{2}$ per cent of the nation's annual average usage of that product—there would be an automatic fall of 5 per cent in its *points*; and there would be a further fall of 5 per cent at the intake (if any) of each subsequent BLOCK of that product. If holdings of BLOCKS diminished, this process would reverse. Thus, the law of supply and demand would prevail—but it would be regularized in its application, with market fluctuations limited to reasonable and predictable proportions. The margin between the *points* would invariably be 22·2 per cent of the low *point*; and that is the rate of profit that would accrue to P.S.C. when called upon to sell. But it would not be actuated by the profit motive.

FOSTERING COMMERCIALLY OWNED RESERVES

P.S.C. would stand ready, also and *alternatively*, to accept the custody of commercially owned stocks, at cost of space

The Proposed System Summarized

occupied, in units of quantity equal to what it would purchase. For each deposit it would give its warrant, certifying the volume and grade held and the applicable *points*. This would be absolute security for a bank loan up to the amount for which (at any time) that deposit could be sold *in situ* to P.S.C. at its then low *point*. Merchants and user-industries could then finance the holding of reserves on unprecedentedly favourable terms. But, to prevent this facility being used to improper advantage, each warrant would contain a proviso that, if the market price for a deposited product rose above the level of the HIGH *point*, the warrant would have to be surrendered, when P.S.C. would pay for the deposited stocks *at the level of the low point*, and then hold these for sale *at the level of the HIGH point*. But this proviso would not apply to a bona fide user-industrialist who had prudently established reserves exclusively for his own use and not to "play the market." There would always be a floor in the market, at the low *point*; and, when P.S.C. held stocks, a ceiling, at the HIGH *point*—with market fluctuations correspondingly limited.

POTENTIAL RANGE OF APPLICATION

Manifestly, with an index based on the suggested formula, P.S.C. could not acquire stocks (and would not need funds) until there was a substantial decline in market prices of the commodities concerned. But, unless price trends had gone into irrevocable reverse—and there is much evidence to the contrary—a time would come when they would fall to the levels at which P.S.C. would secure reserves in custody and ownership; and, thereafter, the system would operate with full effect. There are very few basic products whose prices have not varied by at least 40 per cent—and some of them have varied by hundreds per cent—since 1950. Over one-third of the United Kingdom's total imports are of basics suitable for inclusion under this system; and these provide the foundation for Britain's

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industrial economy. If stability is imparted at this base, it can extend throughout the whole superstructure of finance, industry and commerce.

THE SYSTEM THOUGHT THROUGH

This proposal is thought through and described in all its detailed workings—as to costs and as to its effects, direct and indirect on e.g. internal finance, the balance of external payments, oversea investments and British farming—in the Chapters which follow.

MULTI-NATIONAL ADOPTION PROBABLE

It may be anticipated that, if the United Kingdom inaugurates this system, other great trading nations will follow her example. International administration is not practicable; but multi-national adoption could almost certainly be expected. This is dealt with in Chapter VIII.

AUTHOR'S APPRECIATION

The author appreciates the expressions of confidence in the integrity of his work that are implicit in the opinions of the eminent economists which provide a preface to this book. Moreover, he wishes here to record his thanks to the many competent authorities who have advised him on technical matters.

The author's earlier efforts in this field of endeavour are summarized in Appendix IV.

L. ST. CLARE GRONDONA.

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A POSITIVE COUNTER TO INFLATION

A counteraction to inflation at its source would be provided to the extent that the proposed system was able to operate. The decline in the purchasing power of the £ since the war has been due only partly to factors operating within the United Kingdom—and over which controls can be exercised. Therefore, the many expedients to which H.M. Governments have had recourse—such as high taxation, restrictions on credit and capital investment—though ameliorative, could not have had the desired result.

The root cause of the price-wage-salary-dividend spiral was the rise in costs of all those essential commodities on the import of which the Nation's whole economy depends. The following needs no explanation.

AT AVERAGE C.I.F. PRICES £1,000 BOUGHT			PERCENTAGE PRICE INCREASES COMPARED WITH PRICES IN 1938		PERCENTAGE DE- CREASES IN £'S BUY- ING POWER BELOW THAT IN 1938		
Tons of:	in 1938	in 1947	in 1956	in 1947	in 1956	in 1947	in 1956
WHEAT	131.8	45.9	35.4	192.6%	273.6%	65.2%	73.3%
or MAIZE	162.2	46.2	37.2	251.3%	336.5%	71.5%	77.1%
or SUGAR	125.0	31.6	23.4	294.9%	436.5%	74.7%	81.3%
or WOOL	9.6	4.6	1.9	107.5%	405.3%	52.1%	80.2%
or COTTON	19.6	6.4	3.8	206.5%	415.8%	67.3%	81.0%
or IRON ore	714.3	363.1	171.1	96.7%	317.6%	49.2%	76.0%
or COPPER	22.0	8.4	3.1	161.1%	612.7%	61.8%	83.9%
or TIN ore	9.7	4.2	3.0	129.0%	220.8%	56.7%	69.1%
or LEAD	63.8	14.0	8.6	357.5%	643.8%	78.1%	86.5%
<i>Average of Percentages:</i>			211.1%	427.6%	65.25%	79.5%	

To the extent that the increases listed above are typical in relation to the full range of imported basic commodities—

and there is no reason to suppose otherwise—the volume of the United Kingdom's imports in those categories which cost £1,200 million in 1956 could have been purchased in 1938 for £28.1 million; and, in 1947, for £592 million. While it would be absurd to suggest that prices will ever revert to 1938 levels, it is well within the bounds of likelihood that those of many individual basic products will fall, from time to time, to an aggregate of perhaps 25 per cent—and maybe by a much greater percentage—below 1956 levels. In fact, there have been some very significant falls during the first half of 1957. An overall average price-decline of 25 per cent in respect of basic imports that had cost the United Kingdom £1,200 million in 1956 would reduce the nation's oversea-commitments volume for volume in that most important segment of external trade, to £900 million. And, if the proposed system had been put into potential operation, it could then have become effective in respect of many important commodities.

However, for reasons made very clear in this book, such an overall price reduction is not likely to occur unless the basic producers concerned are assured against precipitate price decline; they have not forgotten the inter-war years. But, given the assurances provided by the implementing of the proposed system, it could reasonably be anticipated that the cost of our imported raw products would soon fall to realistic levels—not precipitately, but in an orderly manner and with increased trade in compensation. All the evidence is that this would be most likely soon to occur in respect of grain, and of certain industrial raw materials now in surplus supply. And that would positively counteract inflation at the very base of the Nation's economy.

N.B. Though the value of the £ fell, in 1949, from \$4.02½ to \$2.80, the foregoing table shows the major price increases to have been for imports from the Sterling Area—e.g. wool, copper, lead and sugar.

ABUNDANCE—IN FACT AND IN PROSPECT

IN FACT—In June 1957, over 37 million tons of wheat—grown in earlier seasons—and sufficient to meet the needs of wheat-importing nations for about three years—was held in burdensome surplus in North America; with 21 million tons in the U.S.A. and the balance in Canada. Many other surpluses held in the United States included 26 million tons of maize, 380,000 tons of cotton, and 438,000 tons of tobacco.

IN PROSPECT—The output of wool in the “free” world had progressively increased in each of the nine years to the end of the 1956-7 season in which it exceeded 1,500 million lb.—an all-time record. In Australia production has been increasing in a spectacular way and, in 1956, it was higher by almost 50 per cent than the average in the five seasons prior to 1939. Moreover, it was officially forecast—in mid-1957—that output in that country will increase by a third within five years. Other pastoral industries, too, are expanding in a heartening manner—in many parts of the world. In agriculture, the extension of irrigation on the one hand, and the reclamation of swamp-lands on the other, with new farming techniques and improved soil-treatment—all are constantly adding to output-per-acre and output-per-man-year in all the continents.

Reference must be made, also, to some of the proved mineral reserves awaiting exploitation in the Commonwealth alone. Preliminary surveys of newly discovered deposits of iron ore in Quebec and Labrador have shown them to be so vast that their iron-content is officially stated to run into thousands of millions of tons. Capital now being invested in the exploitation of this wealth is likely to total \$1,000 million before 1967. India is now developing ore

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said to hold 10,000 million tons of iron. Known deposits in South and South-West Africa are believed to contain 5,000 million tons of iron; while those in Southern Rhodesia have been estimated to hold 50,000 million tons of this metal; and there are huge deposits of coal in that region, together with a great hydro-electric potential. This source of energy is now being developed for the smelting and refining of copper in Northern Rhodesia, where the copper ore reserves have a metal-content estimated at 17 million tons; and Canada, too, has known deposits of copper ore with a metal-content of upwards of 10 million tons. Of lead and zinc, there are proved deposits—chiefly in Australia, but also in Canada—estimated to contain over 19 million tons of lead, and 23 million tons of zinc. There are immense reserves of tin ore in South-East Asia—especially in Malaya—and in Nigeria. The Commonwealth is particularly richly endowed with bauxite—from which aluminium is made—with deposits of 300 million tons in Jamaica, 65 million in British Guiana, and 225 million in Ghana—where, also, there is a great hydro-electric potential to be exploited. Until 1955, Australia was thought to have only small reserves of this substance; but, since then, there has been discovered in Queensland a bauxite field in which the deposits seem illimitable. And vast coal reserves, also, have recently been found in that State.

Many other examples might be cited of latent wealth in all fields, in all the continents. In short, there is no visible limit to the world's resources in essential commodities; nor is there to men's industry, enterprise and ingenuity in the development and utilization of these resources. And, with that reasonably balanced production of basic and secondary wealth, which the application of the system now proposed could bring about over the long term, there are assuredly no visible frontiers to the material requirements of men.

ILLUSTRATIVE ANALOGIES

I.—THE GOLD STANDARD—AND THE P.S.C. SYSTEM

The potential functioning of the Price Stabilizing Corporation would be analogous, to some extent, to the automatic operation of the gold standard from 1840 till the outbreak of the first Great War. Throughout that period, the Bank of England guaranteed a regular buying price of 77s. 9d. per ounce for *standard* gold (*standard* being "eleven-twelfths fine"), at which figure it was valorized (or given a minimum value) in sterling; and the Bank of England constantly guaranteed to sell it at 77s. 10½d.—at which sterling was valorized in terms of gold. These were the gold *points*, and they remained effective for some seventy years, during which the market price for this metal was permitted to fluctuate by only 1½d. per ounce. And that was the extent to which its sterling value was maintained throughout the world—plus or minus cost of freight and insurance—until the incidence of war so reduced gold reserves that sterling could not be honoured at the high gold *point*.

The establishment by Great Britain of the gold *standard* had been an entirely unilateral action; but other great trading nations soon followed her example—each independently determining its own gold *points* in terms of its own currency. And, thereafter, so long as the currency of each such nation was exchangeable for a known weight of gold, there was constant stability in currency-exchange rates (in terms of gold) until August 1914. Thence onward, however, increasing quantities of this metal—formerly

distributed among the trading nations—went to the U.S.A., there to become, and remain, a sterile hoard at Fort Knox.

The system to be administered by the Price Stabilizing Corporation would differ in two respects from that under which the gold standard operated. First, the P.S.C. could not undertake to sell unless and until it had acquired reserves at the relevant low commodity *points*—when, however, it would sell on demand at the relevant high *points*. Secondly, these commodity *points* would not be *fixed* (as for gold). Instead, they would adjust automatically in inverse ratio to P.S.C.'s holdings (if any) of pre-specified volvities of reserves.

From the outset, however, every commodity brought within this system would have a minimum value in sterling at that product's low *point*; and, if that commodity came to be held by the P.S.C.—and for so long as it was so held—sterling would have a known minimum (and maximum) value in terms of that product. Hence, the wider the range of commodities held in P.S.C. reserve, the greater would the extent to which sterling would have both maximum and minimum valorization in terms of (essential) commodities.

While the gold standard, when effective, stabilized currency-exchange rates on a mutually acceptable basis, its functioning had no influence whatever in stabilizing commodity prices. It merely fixed (*a*) the price of gold in terms of sterling, and (*b*) the value of sterling in terms of gold. In contrast, on the reasonable assumption that the P.S.C. ultimately acquired substantial and diversified commodity reserves, this would automatically stabilize—within reasonable and realistic margins—both the prices of these in terms of sterling and (*b*) the value of sterling in terms of each commodity so held.

Insomuch as other great nations emulated Great Britain in adopting the gold standard, it would not seem improbable

Illustrative Analogies

that, if Great Britain took the initiative in respect of commodity valorization as advocated in this book, other nations would follow, also, that example. This subject is discussed in Chapter VIII.

2.—EXCHANGE EQUALIZATION FUND—AND THE P.S.C.

The purpose and potential functioning of the Price Stabilizing Corporation are more closely analogous to the purpose and functioning of the Exchange Equalization Fund of the Treasury than to the gold standard—for which the E.E.F. is designed to be (to some extent) a substitute. But there are important differences between the potential workings of the P.S.C. and those of the E.E.F., because: (a) the detailed operation of the E.E.F. is at the discretion of those who administer it; (b) its reserve holdings of other nations' currencies are not disclosed; and (c) it is in no sense passive, in that it "actively enters" the money market, both as buyer and seller, at prices which vary at the exercise of the unfettered judgment of its administrators.

In marked contrast, the governing body of the P.S.C.—having determined and publicized the initial index and *points* for a commodity—would remain entirely passive, standing ready to operate automatically, but only on the initiative, first and always, of sellers and, thereafter, of buyers. It would not "enter" the market at any stage—nor ever take the initiative either in buying or selling. Moreover, if and when it acquired reserves, their volumes would be regularly publicized. Its buying and selling prices—the commodity *points*—would not be subject to alteration excepting in the precisely defined circumstances which had been publicized at the outset.

Subject to the foregoing, the functioning of the E.E.F. and of the proposed Price Stabilizing Corporation are compared in what follows—written as though the P.S.C. were functioning.

The { E.E.F. buys at its discretion } when there is P.S.C. will buy on delivery } a surplus of a { foreign currency } a valorized product } —the fact that there is a surplus of such { currency } product } being revealed by { the low price E.E.F. pays in the money market } deliveries for sale to P.S.C. at its low point } ; and the { E.E.F. } sells the same { currency } product } when there is a deficiency of that { currency } product } in the { money commodity } market—the fact that there is a deficiency being shown by the { price E.E.F. obtains in the money market. } buying from P.S.C. at its HIGH point. }

It is to be noted that the prices at which the E.E.F. becomes a buyer or seller are arbitrarily determined from day to day by those administering this Fund; whereas, in contrast, the prices at which the P.S.C. will buy and (when it holds stocks) sell on demand are pre-notified in the light of pre-specified accumulations—if any. Hence, the operations of those administering the E.E.F. are (necessarily) unpredictable; whereas, again in contrast, all concerned know in advance the price at (and conditions on) which the P.S.C. will buy on delivery and sell on demand.

Thus, though there are important differences in detailed administration, there is a close analogy in principle between the operations of the Exchange Equalization Fund and those proposed for the Price Stabilizing Corporation.

Illustrative Analogies

3.—WATER CONSERVATION—AND P.S.C. RESERVES

This third analogy is, perhaps, none the less effective because it is very simple.

Far more water is precipitated on London and the Home Counties in a normal year than would be required by their upwards of twenty million inhabitants. But, what would be their predicament if, having installed an efficient system of pipe distribution, they neglected to establish adequate reserves of water to be drawn on as required? In fact, we co-operate with Nature by constructing huge reservoirs in which we take care to keep the water above a level that will ensure a regular supply to every user. These reservoirs—and the system of pipe distribution—have cost immense sums to construct, but the resultant charge is so spread out among the community that the (stabilized) price of water is so low—to the average domestic consumer—as to be negligible.

In considering how to maintain a regular flow of essential commodities to satisfy the nation's needs, it is as well to have in mind the merits of the water reservoir, because it can only be by having a somewhat similar system in operation for primary commodities that either continuity of supply, or reasonable and realistic stability of prices, can be assured.

NOTE TO THE READER

It has been said that the system outlined in this book is bewildering in its simplicity. Though this may be essentially correct, there are very many issues involved—with factors and details which have to be kept constantly in mind if misconceptions are to be avoided. It is for this reason that the text contains frequent cross-references as between the numbered sections in the several chapters—for the convenience of the reader who may find it necessary to refer-back, or to refer-forward.

There is also a comprehensive Index, commencing on page 185, which should enable every aspect of the detailed operation of the proposed Price Stabilizing Corporation to be quickly located in any part of the text.

The automatic potential functioning of this system is based on the formula for valorization in sections A.8 to A.11 of Chapter I—qualified by section B.21 of Chapter II; and special importance attaches to section A.12 of Chapter I.

The *Questions* posed on pages 38 to 42 were in fact raised by parliamentarians, public officials, producers of basic commodities, business men, trade unionists and economists—with whom the proposal (in principle) was discussed before the subsequent chapters were prepared. If what appear to be logical and effective answers could not have been given, this book would not have appeared.

CHAPTER I

GENERAL OUTLINE

A.1.—THE OBJECTIVE

The purpose of the system described briefly in this chapter is to provide a means whereby *in certain circumstances* price stability, at realistic but not at rigid levels, could ultimately be imparted to many of a very wide range of those standard basic commodities on the continuity of supply of which the whole economic superstructure depends. But it must be made clear from the outset that the attainment of such an objective would not be practicable unless and until substantial reserve stocks had come to be built up under the aegis of a new type of competent authority, adequately financed and not actuated by the profit motive, which would administer such reserves with an impartiality not hitherto experienced in any nation.

A.2.—COMMODITIES AFFECTED

The proposed system would be applicable to such primary commodities, *inter alia*, as industrial metals and other mineral substances; grain and pulse; sugar; rubber; textile raw materials; timber; and many other basic goods in crude or early-processed form—provided they have three attributes: (a) that they are durable, in the sense that they can be stored economically under proper conditions without appreciable deterioration; (b) that they can be produced to recognized standards; and (c) that each is convertible into a wide range of consumer and/or capital goods which are in widespread and continuing demand.

At least 33 per cent—by value—of the total of the United Kingdom's imports throughout 1956 were of basic products which, unquestionably, have these three attributes; see Appendix i.

A.3.—A PRICE STABILIZING CORPORATION

The inauguration of this system within the United Kingdom—so that it would be in readiness to function effectively if and immediately the occasion arose—would require the establishment of a statutory body to be financed, as and when required, by the issue of Stabilizing Bonds guaranteed by H.M. Government. It could be known—and is referred to throughout this book—as the British Price Stabilizing Corporation (P.S.C.); and it would be as aloof as is the Judiciary from political, departmental or other interference or influence. When established, the P.S.C. would stand ready to buy any basic product brought within its scope, at any time thereafter, but only at a pre-notified price always lower by a prescribed percentage than that product's market price at the date of its valorization (the meaning of which in this context is explained in the next paragraph); and, if and when the P.S.C. had acquired stocks, it would hold these in reserve—then standing ready to sell on demand but only at a pre-notified price that was higher by a prescribed percentage than the price at which it had bought. It is important to note that P.S.C. stores for all products that were subject to duty or excise would be bonded.

A.4.—VALORIZATION OF PRODUCTS

The P.S.C.'s buying price and its (conditional) selling price (conditional, that is, upon its holding reserves) would be known as a commodity's points. All products brought within the system would be said to be (conditionally) valorized in the sense that each would then have

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a known *minimum* value in sterling. The word "conditional" is interpolated because the level of valorization would be subject to the proviso that, if the P.S.C. acquired a pre-specified volume to be known as a BLOCK of any product, that product's *points* would fall automatically by 5 per cent of their original levels; and by a further 5 per cent (of their original levels) at the intake (if any) of each additional BLOCK of that product. While, conversely, if accumulated reserves were diminished by sales to the extent of one BLOCK (or of more than one BLOCK) this process would go into reverse—automatically—until the *points* were again at their initial levels. Above these, however, they would not rise; unless, after a lapse of (say) two years from date of valorization of some commodity, the P.S.C. had not acquired reserves of that product. There could then come into automatic effect a pre-publicized formula which would lead to the raising—by pre-notified stages—of the relevant *points*, until such time as the P.S.C. did secure reserves. The terms of such a (conditional) formula are suggested later in the text.

A.5.—RESERVES TO BE PUBLICIZED

Statements showing the volumes of reserves (if any) would be published by the P.S.C. at frequent and regular intervals. At the outset, these would all be "nil returns"; but, if and as soon as stocks were acquired, all concerned—both producing and consuming interests—would be constantly informed as to the P.S.C.'s available reserves and of their effects on the minimum and maximum (market) prices; an order of affairs that has not hitherto been in operation.

A.6.—CHARTER TO BE UNCOMPROMISING

The Charter establishing the British Price Stabilization Corporation would need to be specific to the extent that

there would be no room for misunderstanding or uncertainty as to the levels at which the initial *points* for each valorized product would be set; or as to the extent of the subsequent adjustments of *points*, always in circumstances which—though unpredictable—could be hypothesized by producing, merchanting and consuming interests; that is to say, all would know, not only the initial *points* for each such product, but the precise extent to which those *points* would vary if a BLOCK or BLOCKS accumulated.

A.7.—Therefore, the factor essential to ensure the successful inauguration—and subsequent effective automatic functioning—of this system would be the method whereby the initial *points*—i.e. the P.S.C.'s buying and (conditional) selling prices—and their subsequent (conditional) adjustments would be determined. This method must be logical, definite, as equitable as possible—and easily understood; with its application simple and automatic—without dependence on men's (fallible) judgment. To that end, each product to be valorized would be assigned an initial *index* determined by the application of some such unambiguous formula as in the next paragraph; and the P.S.C.'s initial low *point* would always be (say) 10 per cent below that *index*, and its (conditional) initial HIGH *point* always 10 per cent above that *index*.

A.8.—FORMULA FOR INITIAL Points

The formula for determining the level of the initial index for each product would be in some such uncompromising terms as the following:

The initial index shall be set at $\frac{1}{2} \text{ per cent}$ below a *datum* which shall be either: (a) the market price at close of business on the day prior to valorization; or (b) the average reckoned on the market prices at the close of business on the Wednesday in each of the immediately preceding fifty-two weeks; or (c) the average

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reckoned as in (b) over the immediately preceding 104 weeks—whatever is the resultant lowest figure. The initial low *point* shall be 10 per cent below index; and the (conditional) initial HIGH *point* shall be 10 per cent above index.

Thus, (a) if the market price on the day preceding valorization had been £112 per ton, (b) if the average over the fifty-two weeks had been £100, and (c) if the average over 104 weeks had been £130, the *datum* on which the initial index was to be based would be £100 per ton, with this result:

Initial index at $12\frac{1}{2}\%$ below <i>datum</i>	becomes £87 10s.
Initial low <i>point</i> at 10% below index i.e. at $21\frac{1}{4}\%$ below <i>datum</i>	becomes £78 15s.
(Conditional) initial HIGH <i>point</i> at 10% above index, i.e. at $3\frac{3}{4}\%$ below <i>datum</i>	becomes £96 5s.

A.9.—In such circumstances, P.S.C. stands ready to buy on delivery—but only at £78 15s. per ton; and it will not obtain any stocks so long as the market absorbs all available supplies at not less than that price. But, in the event of market prices falling to that level and of there being large offerings at that time (when, if there were no P.S.C. to which sellers could have recourse, there would be precipitate price decline probably quite out of proportion to its cause), supplies would commence to flow into P.S.C. reserve; and, thence onward, the P.S.C.'s HIGH *point* would become effective to the extent that, in the event of there being any subsequent shortage in market supply with consequential price increase, this could not rise beyond the P.S.C. HIGH *point*—so long as it held any stocks. In the interim, market prices would be free to rise from the low *point* to the HIGH *point*—that is, by 22·2 per cent—but no higher. The 22·2 per cent margin is explained thus: with a low *point* of £90 and a HIGH *point* of £110 the difference is £20—which is 22·2 per cent of £90; and that would be the constant margin between the low *point* and the HIGH *point*—at whatever level the index stood.

A.10.—AUTOMATIC POINTS-ADJUSTMENTS

As mentioned in A.6, the initial index and *points* would continue in operation only until one BLOCK had been taken into reserve, when there would be an immediate automatic fall of 5 per cent in the index and *points*. The P.S.C.'s Charter would specify the size of a BLOCK of each valorized product; and let us suppose that this was to be equivalent to an eighth of the nation's average annual supply of that product, reckoned over the three years preceding its valorization. In these circumstances, if the annual average supply of one product had been 320,000 tons, the size of its BLOCK would be 40,000 tons—a fact which would have been publicized at the time of its valorization together with the notification that, in the event of the P.S.C.'s acquiring one BLOCK, the relevant index and *points* would at once fall by 5 per cent; and that, at the intake (if any) of each additional BLOCK of that product, there would be a further fall of 5 per cent (of the initial index and *points*) in each case. To make this process quite clear, the following is a hypothetical example of the application of such adjustments (with the initial index and *points* as used illustratively in A.8); and if four BLOCKS were taken into reserve:

	<i>Index</i>	<i>Low Point</i>	<i>High Point</i>
	£ s. d.	£ s. d.	£ s. d.
1st BLOCK (initial <i>points</i>)	87 10 0	78 15 0	96 5 0
If filled, deduct 5%:	4 7 6	3 18 9	4 16 3
2nd BLOCK (1st adjustment)	83 2 6	74 16 3	91 8 9
If filled, again deduct:	4 7 6	3 18 9	4 16 3
3rd BLOCK (2nd adjustment)	78 15 0	70 17 6	86 12 6
If filled, again deduct:	4 7 6	3 18 9	4 16 3
4th BLOCK (3rd adjustment)	74 7 6	66 18 9	81 16 3

This process would go on if BLOCKS continued to accumulate; but it would go into reverse at the reduction

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(if any) BLOCK by BLOCK, of reserves so held. With an accumulation of four BLOCKS (160,000 tons) the P.S.C. would be holding in reserve a volume equal to half the recent annual average requirements (which we have assumed to be 320,000 tons) by the nation of that product—always some essential commodity. The likelihood or otherwise of that occurring in respect of some of the more important commodities suitable for valorization is discussed (on the data available) in Chapters III and IV. It will have been seen that, with the proposed system of conditional *points* adjustment, the low *point* is invariably 10 per cent below index and the HIGH *point* invariably 10 per cent above index; and that the percentage difference between the two *points* is constantly 22·2 per cent of the low *point*. In the highly remote event of the P.S.C.'s holding eight BLOCKS—equivalent to one year's reserve supply—the then index and *points* would be lower than the initial index and *points* by 35 per cent (resulting from seven 5-per-cent reductions) when they would have become: index, £57 17s. 6d.; low *point*, £51 3s. 9d.; and HIGH *point*, £62 11s. 3d. By such means the law of supply and demand could operate in an orderly manner which—by automatic but inevitable process—would avert those violent and quite unpredictable fluctuations which have so often disrupted national (and world) economy in the past; and the normal functioning of trade by the usual marketing processes would continue unhampered.

A.11.—POSSIBLE ALTERNATIVE *Points* RANGE

Of course, the Charter authorizing the establishment of the Price Stabilizing Corporation might require that the *points* should be set at some other percentage below and above the index—instead of 10 per cent. If, for example, 5 per cent was decided upon, this would allow for only an 11·1 per cent market fluctuation (above the low *point*) when reserves were held; while, if the figure 15 per cent

had to be applied, the range of market fluctuations (when reserves were held) would become 33·3 per cent. However, it would seem that 10 per cent—permitting a fluctuating range of 22·2 per cent—would generally be both reasonable and realistic; and the text which follows is based on that percentage throughout. Nevertheless, it might be found desirable to have differential *points*-ranges, for different types of commodities, from the outset. For example: the projected permitted range of market fluctuations for (say) non-ferrous metals might be less—or greater—than that for perennial increments from the soil; and, again, the *points*-range for products resulting from annual plantings might be wider—or narrower—than for such a commodity as rubber, because the trees which yield latex must be cultivated for several years before they can be tapped. Such matters of detail would no doubt be determined after consultation with the interests concerned. It would be essential, however, that, once established, the *points*-range should be unalterable.

A.12.—DEPOSIT OF COMMERCIALLY OWNED STOCKS IN
P.S.C. CUSTODY

It is a most important feature of this system that the P.S.C. would be ready not only to buy any valorized product but alternatively to accept the deposit of commercially owned stocks in its custody on payment of rent for net space occupied. On lodging his product, a depositor would receive the P.S.C.'s warrant (or receipt), which would be a gilt-edged security for a bank advance up to (nearly) the full amount that could be obtained from the P.S.C. (at its low point) by sale to it *in situ*. But, endorsed on the warrant would be a proviso that if the P.S.C. was not holding any of this product in its ownership, and the market price rose to be above the HIGH point, it would call for the surrender of the warrant and take over the full quantity in its custody,

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paying for this at the level of its low *point*; and it would then stand ready to sell on demand at its HIGH *point*. But it would also be provided that this step could not be taken in respect of depositors who were themselves *bona fide* users—subject to an undertaking that the product lodged with the P.S.C. would be used by the depositor and not be offered for sale. Published statements as to the P.S.C.'s holdings would include (but show separately) those which were not owned by the P.S.C.

A.13.—A FLOOR TO THE MARKET

It is a principle recognized and applied by most of the secondary industries (and accepted by the distributive trades) that wholesale prices shall be at levels the industrialists, themselves, determine; and, in very many instances, the retail prices are fixed. Legislation by H.M. Government, in 1956, in this connection was not designed to interfere with reasonable price-maintenance; but, rather, to safeguard the consuming public against its possible abuse. The implementing of the system now advocated would result in the application of a similar—but realistically elastic—principle to basic products (the output of which, unlike that from secondary industry, is unpredictable) with automatic safeguards for producing interests and (once reserves were established) for user-interests. No one would sell to the P.S.C. excepting of his own volition and as a last resort; and, when it held stocks, no one would buy from the P.S.C. excepting of his own volition and as a last resort. In effect, the normal volume of trade in valorized products would continue in the open market. But the P.S.C. would be constantly in the background ready at all times to buy on delivery—but only in pre-specified substantial quantities—at a product's low *point*; and this, in effect, would put a floor in the market at that level for every valorized commodity. And, if and when it held reserves—and so long as it

held any part of these—it would sell on demand, but only in pre-specified substantial quantities, at its *HIGH point*; and this, in effect, would put a ceiling in the market at that level—but only for so long as stocks were held. However, because the P.S.C. would buy and sell only in substantial “parcels” of pre-notified volume, some market dealings (in smaller quantities) might often be at prices slightly below the low *point*, or slightly above the *HIGH point*; see also B.16 of Chapter II.

A.14.—ALL TRANSACTIONS TO BE IN STERLING

The P.S.C. would buy and sell without national or other partial discrimination; but no product would be accepted unless it conformed to a standard grade and was of good quality. There would be a separate initial index for each recognized grade of any product which is usually marketed in more than one grade. All payments would be in sterling; and all sales would be in exchange for sterling. In no circumstances would the P.S.C. handle any other currency. P.S.C. reception depôts would all be situate within the United Kingdom where they would be sited (and compartmented) to meet the ascertained requirements of user-industries and/or of traders.

A.15.—THIS SYSTEM NOT GOVERNMENT TRADING

This system is not to be confused with Government trading, from which it differs fundamentally; nor is it to be compared with commercial trading, from which, also, it differs fundamentally—because the P.S.C. would remain passive; it would not enter the market, and it would not be actuated by the profit motive. Its potential automatic functioning could become operative only at the will *first* of sellers; and, *then*, of buyers. Its possible financial commitments which could be accurately measured in advance would be most unlikely to put any appreciable strain

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(internal or external) on the nation's finances. The wider the range of products valorized the greater would be the potential for achieving general price stability.

A.16.—LOW ADMINISTRATIVE COSTS

Because all the methods to be adopted in operating this system would be worked out in such a manner as to achieve maximum economy at every stage, the *administrative costs*—as will be demonstrated—would be relatively negligible.

A.17.—NOT STRATEGIC RESERVES

The P.S.C.'s stocks, *as such*, would not be strategic reserves—because it would be an indispensable condition that it should sell on demand irrespective of the buyers' nationality. But, in the event of any situation arising in which H.M. Government wished to take over P.S.C. reserves, wholly or in part, it would of course do so—paying at the level of the *HIGH point* like any other buyer; but, so far as the Government was concerned, this would be virtually no more than a book entry.

A.18.—P.S.C. WOULD NOT BE HAMPERED BY TARIFFS OR SUBSIDIES

Because all P.S.C. stores for dutiable products which come under its aegis would be *bonded*, its operations would not be hampered by tariffs or preferences; nor would its functioning interfere, or in any way be concerned, with the imposition of new tariffs or with the giving of new preferences. Neither would it be affected, or in any way be concerned, if the production of any of the commodities sold to it had been subsidized—either by the British Government or by any other Government. Its sole requirement would be that the product offered to it was of recognized grade and of good quality.

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A.19.—MULTI-NATIONAL ADOPTION?

Though this brief opening chapter has dealt with this system if operated only by the United Kingdom, its adoption by other great trading nations might reasonably be expected—especially if H.M. Government set the example. For reasons set out in Chapter VIII, it would not seem practicable for the system to be inaugurated or administered internationally; but its multi-national adoption—in the sense that the gold standard was multi-national—would be international in its effects.

A.20.—QUESTIONS ARISING

It may be anticipated that many questions have occurred to the properly critical reader—just as they arose in the mind of the author, who has had to ponder over many of these at length. Some such questions are posed below—each with a cross reference to where the reply appears in a succeeding chapter. These questions are not in order of importance—because all are more or less equally important; but they are dealt with in the order in which they appear below.

Question 1: Would the proposed formula (in principle) for determining the level of the initial index and points be satisfactory in all cases, inasmuch as the costs of production of some commodities in the major producing countries (plus freight charges to the United Kingdom) might be below the level of the initial low point which would result from the application of the proposed formula?—*Chapter II, B.1-2.*

Question 2: It is stated that the costs of the P.S.C.'s administration would be "relatively negligible." Would not the provision and upkeep of storage facilities, the intricacies of buying and selling, the care of stocks, and other factors require constant and substantial

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outlay difficult to reconcile with an assertion that such costs would be relatively negligible?—*Chapter II, B.3-9.*

Question 3: It is said that the P.S.C.'s possible commitments "could be accurately measured in advance." By what process could this be achieved?—*Chapter II, B.10.*

Question 4: Assuming there was a considerable decline in prices of products valorized by the P.S.C., and that this led to the P.S.C. acquiring very large stocks, would this not be a heavy burden on the British taxpayer, and what would be the compensating benefits; because, if there had been no British P.S.C., prices might have fallen more quickly, and the British public would have reaped full advantage of this without having had to invest in (perhaps) huge stocks? Would it not be preferable to allow the law of supply and demand to function naturally without any guarantees of minimum or maximum prices—even though these were subject to some form of adjustment within the United Kingdom?—*Chapter II, B.11-13 and B.18.*

Question 5: If the United Kingdom adopted this system and no other country did so (at least for some years) to what extent could the operation of the British P.S.C. affect the levels of prices in world markets?—*Chapter II, B.14-16.*

Question 6: Is this system regarded as being of special importance to Great Britain, and, if so, why?—*Chapter II, B.17; and Chapter V, E.7.*

Question 7: What would be the position of the P.S.C. if it found itself in possession of large stocks of some product the use of which had greatly diminished (and which was continuing to diminish) owing to competition from synthetics or from some alternative product?—*Chapter II, B.20.*

Question 8: As it might happen that, after some years, the P.S.C. would not have acquired any holdings of some very important basic products—because their market prices had not fallen (subsequent to their valorization) to the level of the initial low *point*—would there be any conditional provision for raising the initial index and points for such products?—*Chapter II, B.21.*

Question 9: There are now immense burdensome surpluses of wheat, maize, cotton, tobacco and other farm products in the U.S.A.—all held under Government-financed price-support schemes; and of wheat in Canada. Is it suggested that the authorities controlling the marketing of these products (or of such of them as could be brought within the proposed system) would contemplate consigning heavily (if at all) to the proposed British P.S.C. for payment—in sterling—at the level of its low *point*?—*Chapter III, in full.*

Question 10: Would not the acquisition of reserves—possibly far beyond then current needs—add seriously to the United Kingdom's external balance of payments problem, because the accumulation of BLOCKS of imported products would mean that (in effect) perhaps tens of millions of £s would be disbursed among overseas producers; and would not this cause the value of the £ to depreciate in terms of other nations' currencies?—*Chapter V in full; and, especially, C.21 of Chapter III.*

Question 11: What would be the attitudes of countries of the overseas Commonwealth towards this system? Would they not use every political endeavour towards ensuring that it was so geared as to be of advantage to them—always bearing in mind their importance as markets for British exports?—*Chapter VI.*

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Question 12: How do the merits claimed for this system—
involving as it might do investment of large sums in
reserves of valorized commodities—compare with the
merits of investments in overseas development,
especially in the Commonwealth? Would not the
absorbing of moneys required to purchase reserves
correspondingly reduce the amount of money available
for investment overseas?—*Chapter VI, F.5 and F.10.*

Question 13: How would the British farmer fare under this
system? Is he expected to be satisfied with payment at
the level of the low *point* for any of his products that
were valorized? If the system did result in (say)
wheat becoming available in the United Kingdom at
prices with which he could not possibly compete
would not this lead either to his ruin or to the subsidies
paid to him being heavier than they have been at any
stage hitherto?—*Chapter VII.*

Question 14: Why is it said that the international inaugura-
tion of this system appears to be impracticable? But,
if this be correct, would it not be essential that several
large trading nations should agree to adopt this
system at the same time; and is it thought likely
that it would prove possible to secure agreement:
first, as to the products which should be valorized;
second, as to the levels in different currencies of the
initial indices and *points*; and, *third*, as to the sizes
of BLOCKS? However, assuming that several nations
did agree on these controversial issues, what assurance
is there that all such nations would keep within the
letter (or even within the spirit) of their agreement?—
Chapter VIII, in full.

Question 15: What would there be to prevent Nation "X"
which did not adopt this system from standing aloof
and allowing the nations operating the system to take

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in the slack of over-production (at their own expense); and, then, for Nation "X"—when prices were low, stepping in and acquiring stocks at that stage? In short, would not Nation "X" have got all the advantages without having had to invest in reserves?—
Chapter VIII, H.9.

Question 16: Could not this system be put into serious jeopardy by some nation which, finding itself burdened with heavy stocks, deciding to disregard the automatic functioning of its own P.S.C. and selling these for what they would fetch; and would not this make the positions of other nations' P.S.C.s untenable?—
Chapter VIII, H.10.

Each of the foregoing queries is repeated in the chapters which follow—in which replies and elaborations will be found.

CHAPTER II

P.S.C. POLICY AND ADMINISTRATION

Question 1: Would the proposed formula (in principle) for determining the level of the initial index and *points* be satisfactory in all cases, inasmuch as the costs of production of some commodities in the major producing countries (plus freight charges to the United Kingdom) might be below the level of the low *point* which would result from the application of the formula as suggested in A.8 of Chapter I?

B.1.—THE INITIAL COMMODITY Points

“Satisfactory” is a relative term. What was very satisfactory to sellers might be most unsatisfactory to buyers—and *vice versa*. The objective here is to strike a middle course as nearly satisfying to both producers and consumers as seemed practicable and equitable—in the light of physical supplies coming on to the market measured against the physical requirements of consumers. It is true that, in the cases of some products, the application of the formula (in principle) as suggested in A.8 could result in initial low *points* that were higher than production costs (plus freight charges to the United Kingdom); and that, in such cases, the initial low *point* would provide a more or less profitable price—which is not the basic intention. However, as is shown at the end of A.8, the initial low *point* would inevitably be $2\frac{1}{4}$ per cent below the *datum*—which would have been the lowest of three figures comparing market

price on the day prior to valorization with the weekly averages over the preceding one year and two years. Of course it could be laid down on the P.S.C.'s Charter that a fourth alternative might go back over three years, or longer, for another average. But no useful purpose would be achieved by taking into account the highly artificial price period occasioned by the Korean war.

That the *datum* resulting from the application of the formula as suggested might give an initial low *point* that was perhaps a little too high would be a matter of small moment when compared with the prices British consuming interests had had to pay—often irrespective of production costs—over the two years (or longer) preceding valorization. Manifestly, there could be no assurance that prices would fall to the low *point* for *any* product; and, if they did not do so, the fact that the P.S.C. was in existence would not affect the situation in any way ; subject to B.21.

B.2.—PRICE TRENDS

But, unless past price trends had gone into irrevocable reverse, with either relative stability or a sustained upward movement (after valorization), a time would come when they would again decline (as they had so often done previously) to the level at which the P.S.C. would be offered supplies. And, so long as any of these were held, no subsequent market rise could be above the level of the HIGH *point* which would always be *at least* $3\frac{3}{4}$ per cent below market price at date of valorization—as is shown in A.8. Moreover, if the initial low *point* did prove profitable, it is reasonable to suppose that this would stimulate greater production (or, if producers had accumulated their own reserves, cause at least part of these to be sold to the P.S.C.). And, if the P.S.C. acquired perhaps one or more BLOCKS, the low *point* would fall to a level which—of itself—

was unprofitable to producers; but the process would be so gradual and foreseeable as to ensure that there would not be any precipitate price decline.

- *Question 2:* It is stated in A.16 that the administrative costs would be "relatively negligible." Would not the provision and upkeep of storage facilities, the intricacies of skilled buying and selling, the care of stocks, and other factors, require constant outlay difficult to reconcile with an assertion that such costs would be "relatively negligible"?

B.3.—ADMINISTRATIVE ECONOMIES

The Price Stabilizing Corporation would be a compact organization with a Government-appointed Chairman and small board whose members might (or might not) be commodity experts. At the outset, the only work for its (always) very small office staff would be preparatory—to ensure that it would be competent to operate effectively when the P.S.C. was called upon to function. This staff would include an economist-statistician who would collect and co-ordinate all available estimates of future production of each valorized product. For the rest, nominal retaining fees would be paid to a panel of appropriate specialists whose services would be called upon, on a fee-for-service basis, as and when required. They would include building surveyors, expert appraisers of the various products valorized (probably nominated by the trades concerned), and scientists competent to deal with the problems which might arise regarding possible deterioration of some types of commodities when held in reserve.

B.4.—STANDARD STORAGE UNITS—SUITABLY LOCATED

In the light of the general supply position in respect of every product valorized at the time of the P.S.C.'s inauguration, it would take immediate steps to ensure that storage would be available if and when it seemed likely that it would be required either to buy any product or to take it into its custody. Certain basics such as grain would require buildings of the silo type. For others, like textile raw materials and rubber, special compartmented warehousing would be necessary; while, for metals, a more economical type of (compartmented) structure would be all-sufficient. Estimates by competent authorities of the costs of construction of suitable buildings are contained in Appendix III. However, the P.S.C. would not embark upon the provision of new storage so long as it proved practicable and more economical to acquire existing facilities.

The location of all new storage accommodation would be decided after consultation with those concerned with the handling and utilization of whatever product was under consideration; and each dépôt would comprise several standard units of storage—for the same product. Thus, for wheat, this unit might be (say) 5,000 tons capacity—and there would be at least (say) ten such silos closely grouped, with an aggregate capacity of 50,000 tons, or perhaps much more. All would be served with a simple system of internal (perforated) piping connected to a small motor pump to facilitate air-conditioning, if required, or the introduction of gases noxious to insect or parasite pests—should this prove necessary at any time. Such grouping of standard storage units would make for maximum economy in costs of construction, in maintenance and in accounting. It would seem likely that, in many instances, arrangements could be made between the P.S.C. and British Railways for certain of its stores to be sited on British Railways property flanking the permanent way.

During the second Great War, many strategic-reserve stores were so placed. As far as was practicable, stores would be single-storied, because that is the most economical form of construction; and the movement, in and out, of products is greatly facilitated thereby (see Appendix III).

B.5.—PURCHASES (AND SALES) ONLY IN SPECIFIED VOLUMES

The unit of quantity which the P.S.C. would buy (or sell)—or accept for deposit in (or release from) its custody—would always be precisely that which would fill one unit of storage; though, of course, it would accept (either by purchase or as deposits in its custody) any number of such units. For copper, the unit might be 100 tons; for cotton, 500 tons—and so on. That is why storage facilities for such commodities would be compartmented, with each compartment providing space for one such unit. As the P.S.C. would buy only on delivery at a specified dépôt, and, as all sales would be *in situ* at a specified dépôt from which the buyer would have to collect, the P.S.C. would not be concerned with transport; but (if necessary) it would provide loading facilities at a dépôt. It would require specified minimum periods of notice in respect of all inward or outward movements of products; and it would seem that, in view of the volumes involved, such movements would not be likely to be frequent. For commodities that were to be held in silos, the measures of quantities accepted by this Corporation would be the cubic capacity of the standard containing units. For other products there would be the usual weighing facilities—with the P.S.C.'s representative to check all intakes and withdrawals.

B.6.—FUNCTIONS OF APPRAISERS

When a product was offered for sale (or for deposit) a sample would have to be submitted, and an appropriate

appraiser would be called upon to decide whether it conformed to standard and was of good quality. If there was any doubt about this, it would be refused. There would, of course, be an index (and *points*) for each standard grade of each product which was normally marketed in standard grades. The appraiser would be in no way concerned with the price that was to be paid, which would invariably be at the level of the then operative low *point*. The appraiser would of course attend at the bulk delivery to ensure that this was true to sample.

B.7.—MEASURES AGAINST DETERIORATION AND DAMAGE

Such products held in store as were susceptible to any form of deterioration would be examined at intervals by an appropriate retained scientist (paid on a fee-for-service basis), who, when necessary, would direct the carrying out of the essential corrective measures. If there was any doubt as to the efficacy of these, the affected unit would be at once sold (by agents acting for the P.S.C.) for what it would fetch. But, concurrently the P.S.C.—by its agents—would purchase a precisely similar quantity of that product in the market. These are the only occasions when the P.S.C. would (obliquely) enter the market, which, however, would not be disturbed because the volume of sale would be precisely offset by the volume of purchase. This practice, known as "stock rotation" is operated by Government Departments in respect of certain strategic reserves. No doubt, some losses might be sustained in such circumstances; but close supervision and care of stocks would ensure that any losses due to deteriorations would not be serious—as probably the only products susceptible in this regard (of those which would be brought within this system) would be grains. All storage depôts would be so secured against theft or damage as to conform to *bonded store* standards. Hence, from the security angle, only a small mobile staff of P.S.C.

"police" would be required. In fact, the regular Police Forces could probably afford all the protective supervision that was essential.

B.8.—SIMPLICITY IN ACCOUNTING

Precise information as to the volumes of reserves (in P.S.C. ownership and/or custody) would be instantly available to the Board or outside inquirers. Accounting would be reduced to the simplest possible terms. It is because this system differs so radically from commercial buying and selling, with prices and volumes of turnover unpredictable from hour to hour, that a maximum and quite incomparable economy in administration could be achieved under P.S.C. auspices. It would seem that the annual costs of headquarters administration would not need to exceed £25,000 at the outset; and that at no stage would they be likely to be much above £50,000—exclusive of storage costs.

B.9.—STORAGE COSTS—PROFITS ON TURNOVER

As shown in Appendix III, the capital cost of construction of silos would not be more than £5 per ton-capacity; while facilities for storing textile raw materials, rubber and the like would be in the vicinity of £10 per ton-capacity; whereas those for industrial metals would, of course, be much less. The capital cost of storage raised by Treasury-guaranteed loans at, say, 5 per cent (though a lower rate of interest would almost certainly be paid) could be completely amortized in twenty-five years with annual payments of just below £7 12s. per cent—equivalent to rather less than £72,000 per annum per £1 million invested in stores; and the form of construction of these would be such that their use could continue far beyond twenty-five years. In fact, with very little expenditure on maintenance, concrete-type buildings, such as could be provided at an average capital

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cost of £10 per ton-capacity, would be serviceable for an indefinite period of years.

An average of 10 per cent of the outlay on reserves of commodities bought by the P.S.C. would more than cover annual interest (on the loans raised to provide the money to purchase these) and other charges, which should not aggregate more than 8 per cent. Against these would be offset profits, at 22·2 per cent, on all sales—which would probably be considerable. In this connection, it is as well to have in mind the extents to which market prices have fluctuated during the five years up to the end of 1956. In the following table, the differences in each year between the minimum and maximum prices in that year (for the products listed) is expressed as a percentage of the minimum. Many other examples might be cited, but these may serve as typical illustrations.

Year	Rubber R.S.S.	Wool Merino 64's	Sisal	Lead	Copper	Zinc	Tin
	%	%	%	%	%	%	%
1952	95	24	152	35	(a)	(a)	9
1953	62	16	9	42	14	52	74
1954	92	31	51	39	44	23	28
1955	74	21	23	13	40	20	24
1956	65	28	26	16	66	15	23

(a) Price controlled

An examination of the foregoing figures shows that if the P.S.C. had been functioning during those years and had held substantial reserves (and for so long as it held any of these) the market fluctuation (for any such product) could not have exceeded 22·2 per cent without the P.S.C. being called upon to sell (at a profit of 22·2 per cent). In respect of rubber, it would certainly have required to sell in

each of those five years; of wool, perhaps in 1954 and 1956; of sisal, in 1952 and 1954, and, perhaps, in 1956; of lead, in 1952, 1953 and 1954; of copper, in 1954, 1955 and 1956; of zinc, only in 1953; and of tin, in 1953 and (perhaps) in 1954. That market prices in respect of small transactions might be a little below the P.S.C.'s low *point*, or a little above its HIGH *point*, was made clear in Chapter I, A.13. Of course, unless and until the P.S.C. had acquired reserves, it could not stem the upward movement of prices; but it would always hold a downward movement at its low *point*, at which, if and when there was substantial over-supply in the market, it would automatically obtain reserves.

As a general yardstick, it may be accepted that an average of £100 million worth of reserves could be carried at an annual cost of from £8 million to £10 million—and *pro rata*. If the P.S.C. turned over £50 million worth of products in one year, its gross profit on those sales would be £11,100,000, when, if its costs of holding an average of £100 million worth of reserves during that same period had been £8 million, its net profit would exceed £3 million. Rent for storage space occupied by commercially owned stocks would cover costs in that regard; *vide* A.12. In the highly remote eventuality of the P.S.C.'s ever holding reserves that had cost it £500 million (and disregarding all income) the gross charge would not be likely to exceed £40 million or, at most, £50 million per annum—representing 16s. to £1 per head of population; and that would certainly be a "relatively negligible" figure in the public economy of a nation whose annual income is some £17,000 million—of which £40 million is 0·24 per cent, and £50 million, less than 0·3 per cent.

Question 3: It is said that the P.S.C.'s possible commitments could be accurately measured in advance. Could this be elaborated upon?

B.10.—POSSIBLE P.S.C. COMMITMENTS—AND “AVERAGE PROBABILITY”

On the opposite page is an Illustrative Statement showing potential P.S.C. commitments—BLOCK by BLOCK—in the remote eventuality of its being called upon to buy up to one year's reserve supply of *each of eight* basic products of vital importance as food, feeding-stuffs and industrial raw materials. While each standard grade of any product ordinarily marketed by grades would have its own initial index, the initial low *points* in this statement are assumed to be the average of the initial low *points* for differing grades (as distinct from qualities) of wheat and maize, cotton and wool. Any of the illustrative low *points* as shown—though not altogether unrealistic—might be somewhat higher or lower by the application of the formula (in Chapter I, A.8) at date of valorization, without materially altering the picture in the general financial sense. Only the variations in the costs of BLOCKS at varying low *points* are given in this tabulated statement, because it is designed solely to show the costs to the P.S.C. of reserves if acquired. Each BLOCK represents about one-eighth of the United Kingdom's average annual imports, in recent years, of each product. It is shown in this table that the P.S.C.—far from assuming unlimited liabilities—would be able, from the outset, to estimate with accuracy all its possible future commitments.

— However, future events in the fields of production of valorizable products should be considered on the basis of *average probability* rather than upon extravagant hypotheses; and it would certainly be an extravagant hypothesis to visualize the P.S.C.'s being called upon to take in more reserves than might be offered (at the low *point*) for £100 million to £150 million in the foreseeable future. It could only be as a result of heavy consignments direct to the P.S.C. from surplus-holding countries, chiefly of grain

Illustrative Only—See B.10

STATEMENT TO SHOW HOW POTENTIAL P.S.C. COMMITMENTS, BLOCK BY BLOCK AND CUMULATIVE, CAN BE ACCURATELY MEASURED AND COSTED FROM THE OUTSET

Initial low points would derive from the formula in A.8

COST PER BLOCK, REDUCING PROGRESSIVELY BY 5 PER CENT
OF INITIAL LOW POINT, AND CUMULATIVELY

All figures in cols. from 1st to 8th, below, are in £ million—to 2 decimals.

PRODUCT	SIZE OF BLOCK	INITIAL LOW POINT	COST PER BLOCK, REDUCING PROGRESSIVELY BY 5 PER CENT						BLOCK 8
			BLOCK 1	BLOCK 2	BLOCK 3	BLOCK 4	BLOCK 5	BLOCK 6	
WHEAT	600,000 tons	£22 tons per ton	£1.350 (Cumulative)	£1.283 (£2.633)	£1.215 (£38.48)	£1.148 (£49.96)	£1.080 (£60.76)	£1.045 (£70.89)	£8.78 (£89.93)
MALTE	200,000 tons	£22 tons per ton	£1.50 (Cumulative)	£1.428 (£3.78)	£1.405 (£3.83)	£1.383 (£36.66)	£1.360 (£30.21)	£1.338 (£37.91)	£2.93 (£29.72)
COTTON	1 million cents	22½ pence per lb.	£0.37 (Cumulative)	£8.91 (£8.28)	£8.44 (£26.77)	£7.97 (£34.99)	£7.50 (£42.19)	£7.03 (£49.22)	£6.56 (£55.78)
WOOL	900,000 cents	45 pence per lb.	£1.637 (Cumulative)	£1.603 (£32.90)	£1.559 (£48.00)	£1.434 (£64.33)	£1.350 (£75.93)	£1.266 (£88.50)	£1.197 (£100.49)
COPPER	40,000 tons	£18 per ton	£7.20 (Cumulative)	£6.84 (£4.04)	£6.48 (£20.54)	£6.12 (£26.84)	£5.76 (£32.49)	£5.40 (£37.80)	£4.97 (£42.84)
LEAD	25,000 tons	£3 per ton	£2.02 (Cumulative)	£1.92 (£3.95)	£1.82 (£5.77)	£1.72 (£7.99)	£1.62 (£9.11)	£1.52 (£10.61)	£1.42 (£12.05)
ZINC	15,000 tons	£2 per ton	£1.08 (Cumulative)	£1.03 (£2.11)	£0.97 (£3.08)	£0.92 (£4.00)	£0.86 (£4.86)	£0.81 (£5.67)	£0.76 (£7.03)
RUBBER	40,000 tons	14½ pence per lb.	£5.38 (Cumulative)	£5.11 (£2.49)	£4.84 (£15.37)	£4.57 (£10.90)	£4.30 (£24.20)	£4.03 (£28.27)	£3.76 (£31.90)
GRAND TOTALS—CUMULATIVE	..	£59.96	£116.88	£70.81	£61.97	£52.77	£46.97	£31.47	£395.47

(which would be of great net advantage to the British people, as will be shown Chapter III) that any such large amounts could be involved. However, as has been mentioned (in B.9) the cost of maintaining stocks that had cost £100 million—without any regard to profits on sales, always at a 22·2 per cent premium—would not exceed £10 million per annum—or about 4s. per head of the population. And that would be a very small price for the resultant manifold advantages which would accrue to all. But the probability is that the P.S.C. would show a substantial profit over the years. Many other basics in addition to those listed in the Illustrative Statement on page 53 would seem likely to be valorized; but the possible commitments could always be precisely measured in advance.

Question 4: Assuming there was a considerable decline in prices of products valorized by the P.S.C., and that this led to the P.S.C. acquiring very large stocks, would this not be a heavy burden on the British taxpayer with no compensating benefits; because, if there had been no British P.S.C., prices would have fallen more quickly, and the British public would have reaped full advantage of this without having had to invest in stocks? Would it not be preferable to allow the law of supply and demand to function naturally without any guarantees of minimum or maximum prices—even though these were subject to some form of adjustment within the United Kingdom?

B.11—EFFECTS ON TAXPAYERS—AS CONSUMERS

Paragraphs B.9 and B.10 show the possible cost to the British taxpayer—as such—in the most unlikely event of the P.S.C.'s being required to carry reserves that had cost £500

million; and that this would represent only 0·3 per cent of the national income—surely an infinitesimal premium for the insurance thereby provided. It is to be kept in mind that all taxpayers are constant consumers of every product that would be valorized; and all consumers—directly or indirectly—are taxpayers. Thus, because the P.S.C. could not have acquired *large* reserves unless there had been *large* reductions in prices to the consumer—reductions many times greater in value than the cost of maintaining reserve supplies—the gain by each citizen as a consumer would far more than offset the very small resultant calls (if any) upon him as a taxpayer. This will be expressed in comparative figures in Chapter V, E.6.

B.12—P.S.C. A PROBABLE PRICE-REDUCING INFLUENCE

Any suggestion that, if there were no P.S.C., prices might fall more quickly is open to effective challenge in respect of many of the more important commodities that would be valorized. For several years past, prices of many essential basics have been maintained at artificially high levels solely because their producers are so well organized that they are able to restrict the flow of their commodities on to world markets to those markets' *short-term* needs. And, though these are met, prices are kept at levels which—in effect—are determined by the producers themselves. But, as a result, that part of their output which is withheld from markets piles up as an almost constantly increasing surplus. This is especially true of wheat—a subject dealt with at length in Chapter III. Under P.S.C. auspices, however, overseas wheat producers—while still providing the British *commercial market* with its imported needs—would be able to sell also to the P.S.C.; and all proceeds from these latter disposals would be in addition to proceeds from all market sales. In short—at least for a few years—overseas wheat-growers, especially in the U.S.A. and Canada, would have a much greater

turnover which would enable them to reduce their surpluses; and, in such circumstances, a voluntary lowering of their prices for market sales (cushioned by receipts from the P.S.C.) would seem much more probable than if their total disposals in the United Kingdom were limited to the immediate needs, from time to time, of the British commercial market. There is, in fact, a strong probability that a substantial transfer of wheat from where it is a burdensome surplus to the United Kingdom P.S.C., coupled with the substantial lowering of prices for commercial sales—which would result, would lead to a great and *sustained* increase in the volume of commercial sales in the British market—and in other importing markets. This is elaborated upon in Chapter VII—especially in G.6.

B.13.—INSURANCE AGAINST SLUMP

- As to whether or not it would be preferable to allow the law of supply and demand “to function naturally without any guarantees of minimum or maximum prices”, perhaps it may suffice to recall that the law of supply and demand was operating without interference during the inter-war years in which the world experienced the most disastrous of all slumps. No good purpose would be served by discussing the extent to which the general depression caused the grave fall in commodity prices—or *vice versa*. Though the collapse of the Chicago Wheat Market came first, many potential wrecking elements had already developed in the American business superstructure, and these precipitated the Wall Street crash that shook the economies of the world in 1929 and the early thirties. If there had been stability at the base of the economy of America—or of any other great nation—such as could have been imparted by the stabilizing system as now proposed, it could have been a very different story. The U.S.A. has now gone to the other extreme—with a system of artificial price maintenance which defies the law of

supply and demand; but not with impunity—as the inflation in that country bears witness. The effects of commodity price slumps on British industry and on oversea investments are discussed in Chapter V—especially in E.7.

Question 5: If the United Kingdom adopted this system and no other nation did so (at least for some years) to what extent—if any—could the operation of the British P.S.C. affect the levels of prices in world markets?

B.14.—BRITISH P.S.C.—AND WORLD PRICES

The short answer is that, so long as sterling is a desirable currency, the functioning of the United Kingdom's P.S.C.—in respect of any product of which Great Britain is a considerable importer—must impart stability to prices for that product in other countries' markets—plus or minus costs of freight and insurance. This appears to have been recognized by the International Tin Council, whose efforts (commenced September 1956) are designed to stabilize world prices for tin within a low point of £640 and a high point of £880 per ton—based on prices paid on the London Metal Exchange. The system which the I.T.C. seeks to implement is described in Chapter IV; but the relevant aspect here is that twenty-two nations have agreed to accept London prices as the basis on which to operate the Tin Buffer Stock scheme.

B.15.—EXTERNAL VALUE OF STERLING THE CRITERION

It is obvious that no overseas producer of any product valorized by the British P.S.C. would sell (at least in a large way) in any country at a price lower (in terms of his own

nation's currency) than that which he would be certain of receiving by selling in Great Britain at the level of the P.S.C.'s then operative low *point*; and, conversely, no overseas buyer would purchase that product (at least in a large way) from any source at a price (in terms of his own currency) which was above—or at least substantially above—that at which he knew he could obtain supplies in the United Kingdom, i.e. at the level of the P.S.C.'s then operative HIGH *point*, as a maximum. Hence, the British P.S.C. (even if the only one functioning) would, in fact, do much to stabilize world prices—so far as all large transactions in valorized goods were concerned. Overall, the extent to which sterling is a desirable currency in the estimation of overseas sellers of valorized basics (and of everyone else) must always depend on the then purchasing power of sterling in terms of British goods—and services. In short, the better the British value in price-quality terms which can be offered in exchange for sterling acquired by other countries' nationals, the more desirable sterling becomes.

B.16.—MINOR MARKET PRICE VARIATIONS FROM Points

However, as was mentioned in A.13, it would not follow—even within the United Kingdom—that market prices would never be lower or higher than the P.S.C.'s points; because the minimum (and only) quantities the P.S.C. would buy or sell would always be large "parcels" of specified volume; (*vide* B.4 and B.5). Hence, it might sometimes suit a seller to dispose of a relatively small quantity on the market at a somewhat lower price than the P.S.C.'s low *point*; and, on the other hand, it might similarly suit the buyer of a small volume to pay a higher market price than the level of the P.S.C.'s HIGH *point*. But any such deviations would be of only minor importance. That state of affairs (on account of the freight charges involved) would, of course, be more

likely to apply in regard to overseas buyers and sellers; but, in the same logic, such deviations would not be of any great significance. However, the strong probability is that other nations would set up their own P.S.C.'s—operating quite independently, but to a common set of principles (*vide* Chapter VIII).

Question 6: Is this system regarded as being of special significance to Great Britain and, if so, why?

B.17.—SPECIAL IMPORTANCE OF P.S.C. TO THE U.K.

Subject to the P.S.C.'s ultimately acquiring substantial reserves of the more important basic products this system could then provide British economy with a firmer foundation than any hitherto enjoyed. The United Kingdom has to depend on overseas sources of supply for over 50 per cent of her needs in essential commodities. And, as the net exportable surplus of native products is now negligible, Great Britain's only means of acquiring purchasing power overseas is by the export of skill expressed in the turning of raw products into consumer and capital goods, and of services such as shipping, insurance, finance and tourism. But skill is of scant avail without the essential raw materials; and it is of the utmost importance that these should be in continuous supply and that their prices should be realistic and reasonably stable. In the absence of continuity of supply of raw products at stable prices it is just not practicable to stabilize the cost of living or of the wage structure—or the selling prices of the goods to be exported. The special importance of this system to Great Britain as an overseas investor depending largely on overseas sales of basics to obtain foreign currencies is dealt with in Chapter V—especially in E.7.

B.18.—EFFECTS OF HIGH COSTS OF LIVING IN THE U.K.

The *Economic Survey* of 1956 contained this statement: "Continental Europe has succeeded in reconciling its own economic expansion with reasonable stability of prices while the United Kingdom, during the past year, has singularly failed to do so." It is that situation which, it is submitted, could probably be remedied following the inauguration of the proposed price stabilizing system. So far as the cost of raw materials is concerned, British manufacturers meet their Continental competitors on more or less equal terms. But British industries have had to cope with a quite disproportionate wage spiral in which respect British workers have had a flying start. But their opposite numbers on the Continent are now demanding equally favourable treatment, and this could augur well for British exporters—but only if claims in the United Kingdom for still further wage increases (without corresponding increased output) are withheld. These demands for higher pay can be—and generally are—attributed, with logic, to increased costs of living. But if the cost of living curve could be levelled out or, better, if it can be turned downwards—without reducing wages—they would lose that force of logic. The British Trades Union Congress, which is fully alive to the dangers of the present situation and trend, would then be in a much stronger position in urging unions at least to mark time in respect of further claims. Employers too would be in a correspondingly better position in resisting these—where resistance was justifiable. Since the second World War, many employers have acceded to such demands with a complacency begotten of their ability to pass on the additional wage costs to customers eager and able to buy at higher prices. But that order of affairs no longer obtains—at least not overseas.

The old Cost of Living Index—movements in which continue to be recorded alongside those in the new Index—

was based on 39·9 per cent of household expenditure being on food; and most of the increases in that index, at least in the past year, have been due to rising food costs. The important question is whether or not the adoption by the United Kingdom of the P.S.C. system could either stabilize the cost of raw products and of living; or, preferably, if it could lead to a cheapening of the cost of living when (with a generally stable wage-and-salary—and dividend—structure) all incomes would have greater purchasing power. In that respect, all that can be said at this stage is that the proposed system could be put into potential effect at negligible cost; and to the extent that it was able to operate in respect of basic foods, especially grain, the cost of living could certainly be reduced.

B.19.—SMALL MANUFACTURING CONCERN NOW AT A DISADVANTAGE

It must be mentioned, however, that it is not improbable that some very large industrial concerns may have found that instability of prices for the raw materials they use has not always been to their disadvantage *vis-à-vis* their smaller competitors. This could certainly be true when the financial resources of a very large enterprise enable it to carry its own reserves on such a scale that it can choose its own times to enter the market. In such circumstances, it might buy (for the most part) only when prices were low, and then buy heavily; so that, when prices subsequently rose—as they seem always to do at some stage—that enterprise could keep out of the market. And this, of course, could place it at a great advantage over its less fortunate competitors, who, not having the financial resources to enable them to build up their own reserves, are sometimes obliged to buy at whatever high price may be ruling. And it is to be remembered that a very large proportion of British exports is provided by relatively small concerns. Under the aegis

of the P.S.C. system, most of these would be able to finance the holding of their own reserves (lodged with the P.S.C., *vide A.12*) as gilt-edged securities; and, thereby, they would meet more financially powerful competitors on much nearer to even terms.

Question 7: What would be the position of the P.S.C. if it found itself in possession of very large reserves of some product, the use of which had greatly diminished (and which was continuing to diminish) owing to competition from synthetics or from some alternative natural material?

B.20.—POSSIBLE RISKS OF OBSOLESCENCE

As stated in Chapter I, A.2, to qualify for valorization in the first instance a product would need to be "convertible into a wide range of consumer and/or capital goods that are in widespread and continuing demand." So it follows that no commodity would have been valorized if there had been any likelihood of its subsequently becoming obsolescent to the extent contemplated in the question. It has been specifically suggested that, for example, because of the increasing output of the synthetic substitute, it may become unprofitable to produce plantation rubber. It would appear that the best judges in this matter are the rubber-growing companies; and their policy is not to reduce output but rather to lower their costs (e.g. by a new system of "budding" from the highest-yielding trees on to stocks of very hardy but lower-yielding types). Nevertheless, no one can foresee what the future may hold in store for *any* product; and it is conceivable that at some stage the P.S.C. might in fact be holding large stocks of some commodity whose use had been largely replaced by some alternative material. But that would certainly not mean that

such reserves had become useless; it would mean no more than that they had become unsaleable at the P.S.C.'s HIGH point. Therefore, in order to provide for any such eventuality, the P.S.C.'s Charter could contain a provision that if—at any stage—the P.S.C. had been holding (say) not less than four BLOCKS of one product for (say) two years without being called upon to make sales aggregating one BLOCK, the index and *points* for that commodity could be lowered—with not less than one year's notice—by a prescribed percentage annually. By such means the prices for sterile reserves (if any) would gradually fall and the product concerned could be put to some alternative use for which it had always been *physically* suitable.

Question 8: As it might happen that, after some years, the P.S.C. would not have acquired any holdings of some very important basic products—because their market prices had not fallen (subsequent to their valorization) to the level of the initial low *point*—would there be any conditional provision for raising the initial index and *points* for such products?

B.21.—POSSIBLE RAISING OF INITIAL INDEX AND *Points*

It is not improbable that, in some instances, market prices for certain commodities listed for inclusion in this system would remain consistently above their initial low *points*; and that, in consequence, the P.S.C. would not acquire stocks (of such products). To meet, or to attempt to meet, that situation, some such provision as the following could be incorporated in the Charter under which the P.S.C. was established:

If a product has been valorized for two years and if, during that period, its market price has not fallen, at any stage, to within 5 per cent of the relevant low *point*, its initial index shall rise

automatically (a) by 5 per cent or (b) so that the level of the new initial low *point* shall then be at a level which is 5 percent below the lowest market price recorded at close of business on any day during the preceding two years; *whichever is the greater*; and if, during the ensuing year, none of this product passes into P.S.C. reserve, there shall be a further rise of 5 per cent at the end of each year elapsing after the first rise in the initial index until the year in which the P.S.C. commences to acquire reserves of that product; and, thereafter, there shall be no further rise in the initial index until and unless P.S.C. reserves are exhausted; and then only after a further two years shall have elapsed.

The foregoing is intended to do no more than to illustrate a principle, and to emphasize that any such provision for the raising of the initial index should be specifically laid down in advance for automatic application in clearly prescribed circumstances—if they should occur.

B.22.—COUNTERACTING ATTEMPTS AT CORNERING A VALORIZATED PRODUCT

As some readers may have observed, there is one situation that might arise under this system which—unless special counter-measures were in readiness—could have unfortunate consequences; because, if the market price of a valorized product fell to the level of the low *point*, there would be nothing to prevent a buyer (or a small group of buyers acting in concert) from purchasing all supplies available at that figure (before sellers had recourse to the P.S.C.) and retaining these in his own custody—if he could arrange the necessary finance with his Bank. And, because such stocks could always be sold to P.S.C. at the initial low *point*, they would be firm securities for advances up to that level—less the cost of moving them into a P.S.C. dépôt—always subject to the Bank's confidence in the integrity of the borrower. In such circumstances it is conceivable that a speculator might establish very large reserves and put himself into a position to make great

profits in the event of any subsequent market shortage. Moreover, if the speculator had access to sufficient finance, a market shortage might be successfully contrived. And, because the P.S.C. had no reserves in either its ownership or custody, market prices would be free to rise to any level the speculator was able to "engineer."

Though this would be very much of a gamble for anyone who resorted to such tactics, it is the sort of thing that might be attempted; and it would be essential for counter-measures to be in readiness. To this end direct action by the Government would be necessary to facilitate the successful functioning of this system. Such action would take the form of a request from H.M. Treasury—and that would virtually be a directive—to all Banks and financing houses to call-in all advances that had been made against such holdings unless these were transferred, forthwith, to P.S.C. custody—thereby making the *HIGH point* effective. The alternatives then facing the bo*r*tower would be: (a) to pay off his bank loans in cash—if he were able to do this; (b) to sell his holdings on the market in which buyers, being aware of what was afoot, would be most unlikely to pay more than the level of the *HIGH point*; (c) to transfer his stocks to P.S.C. custody; or (d) to sell to P.S.C. at the low point. None of these alternatives—unless it was (b)—would be very attractive.

To discourage any individual (or group) from seriously contemplating any attempt to achieve a "corner," in this way, the Charter establishing the P.S.C. should contain some such provision as the following:

In the event of the Board of the Price Stabilizing Corporation having reason to believe that persons other than *bona-fide* users of a valorized product were building up large reserves in their own custody with a view to establishing a monopoly of reserves of such product, the Board of the P.S.C. shall notify the Treasury which may then take such steps as may be essential to secure the withdrawal of financial support by financing organizations of any such efforts.

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The fact that the P.S.C.'s Charter contained a provision of this sort would *per se* be a firm warning against any such attempt—a warning to which all responsible financing institutions could be expected to pay due regard from the outset. In short, though what is visualized in the foregoing would not seem likely to occur, it would be essential that all concerned should be made aware from the system's inception that effective counter-measures could—and would—be promptly taken if and when the occasion arose. In this connection it is not likely to be forgotten that the "request" of H.M. Treasury to the Banks, during 1956/57, to restrict credit to their customers was quite as effective as a directive would have been—even supposing that a directive was legally possible.

CHAPTER III

COMMODITIES IN BURDENOME SURPLUS

Question 9: There are now immense burdensome surpluses of wheat, maize, cotton, tobacco and other farm products in the U.S.A.—all held under Government-financed price-support schemes; and of wheat in Canada. Is it suggested that the authorities controlling the marketing of these products (or of such of them as could be brought within the proposed system) would contemplate consigning heavily (if at all) to the proposed British P.S.C. for payment—in sterling—at the level of its low point?

C.I.—A PARTIAL SOLUTION OF THIS PROBLEM?

The P.S.C. system would offer to surplus-holding countries new opportunities of which they might or might not take advantage. The *pros* and *cons* are set out at some length in this Chapter, and the reader, after considering these, must draw his own conclusions, which may or may not be those of the author and of many people familiar with the whole subject, including Americans, Canadians and Australians. The principal holders of surplus wheat, in mid-1957, were the U.S. Commodity Credit Corporation (C.C.C.) with over 21 million tons; the Canadian Wheat Board, with some 16 million tons; and the Australian Wheat Marketing Committee whose accumulations, however, were relatively small. The C.C.C. was carrying also, 26 million tons of surplus maize, 380,000 tons of surplus

cotton, and 438,000 tons of surplus tobacco—all of which are physically suitable for inclusion under the P.S.C. system. The C.C.C. held, in addition, immense tonnages of such perishables as meats, dairy products, and eggs; but none of these would qualify for valorization excepting in expensively-processed form, and this is certainly not proposed.

C.2.—APPLICATION OF P.S.C. SYSTEM TO WHEAT

What now follows relates wholly to wheat, but the deductions to be drawn apply, in general terms, also to maize, to cotton and, perhaps, to tobacco. Only if there were to be a series of extremely bad seasons, or the dislocation of production occasioned by large-scale war, are these surpluses likely to be substantially reduced, unless as the result of exceptional measures, some of which, as will be shown, have already been taken. The difficulties confronting wheat-exporting nations arise from the fact that, since the war, too much land and capital have been devoted to the production of this grain, not only in those countries but (owing to its artificially high price) in many other territories much less suited for wheat cultivation; and incidentally, there has been a series of unusually fruitful seasons. As matters stand, because growers are compensated for all their enormous over-production, prices charged for current sales are kept as high as possible so as to help pay for the surpluses; and these seem to be an ever-growing charge. Hence, we have the anomalous position that *the greater the output of wheat beyond current market absorption the higher its price to the consumer*—and that sets at nought the law of supply and demand. In order to account for this state of affairs it is essential to trace the events following the seventh International Wheat Conference.

C.3.—THE INTERNATIONAL WHEAT AGREEMENT

Under the International Wheat Agreement of 1949–53, Canada, the U.S.A., Australia and France jointly agreed to supply about forty importing countries with 12 million tons of wheat annually during the four years covered by that Agreement. Each importing nation undertook to buy a prescribed minimum quantity—with the United Kingdom taking 4½ million tons, or more than a third of the total. Prices were to be based on dollars at Fort William or Port Arthur (on the Great Lakes at the U.S.A.–Canadian border) or the equivalent at other ports of shipment. The agreed minimum price for 1949–50 (crop year ending 31st July) was to be 150 cents; but it was to fall in 1950–51 to 140 cents; in 1951–52, to 130 cents; and in 1952–53, to 120 cents. The maximum price, however, was to remain constant at 180 cents over the whole period. These prices related to a high-grade Canadian wheat called No. 1 Manitoba. For other grades, prices were to be negotiated between buyers and sellers, but they were not to exceed the permitted maximum at any stage, nor to be less than the prescribed minimum in any year.

C.4.—PRICE REDUCTION THWARTED

By reason of the fact that, at the time this Agreement was signed, the exporting countries were holding a carry-over from preceding seasons of nearly 12 million tons, it then seemed reasonable to expect that—if the average output was at least maintained in succeeding years, and demand did not increase—prices would fall more or less in proportion to the declining scale permitted under the I.W.A., the declared purpose of which was to “ensure supplies of wheat to importing countries at equitable and stable prices.” It is clear that it must then have been considered by the exporting parties to that Agreement that an

annual decline in minimum price by 10 cents per bushel from 150 down to as low as 120 cents would be equitable—provided that output continued at least at normal levels. In the event, however, notwithstanding that there was an unprecedented series of bountiful seasons—with yields per acre far above average—the I.W.A. wheat price was maintained throughout those four years at the maximum of 180 cents. Demand did not increase, and, in that period, the surplus rose to exceed 25 million tons, sufficient to provide the importing countries with over two years' supply without the production of one more bushel.

C.5.—I.W.A.'S AND C.C.C.'S POLICIES CONFLICT

The reason for this strange state of affairs is not far to seek. The American Commodity Credit Corporation is the instrument whereby an extremely effective system of practically rigid price support for wheat (and for other farm products) is implemented within America, and, notwithstanding that the U.S.A., as a party to the I.W.A., had undertaken to provide 5 million tons at a maximum of 180 cents a bushel, its Government-financed C.C.C. guaranteed to American growers a minimum price, in 1949-50, of 199 cents; in 1950-51, of 218 cents; in 1951-52, of 220 cents; and, in 1952-53, of 221 cents. Thus, throughout those four years, the C.C.C.'s guaranteed price was at least 19 cents, and up to 41 cents, higher than the I.W.A.'s ceiling price of 180 cents. But that is only part of the story, because, though many more millions of tons of wheat passed into C.C.C. surplus, the prices in the free (*sic*) American domestic market were always very much higher than the C.C.C. support price; and, in order to provide its quota under the I.W.A., the American Government had to pay to growers a price that included the difference between the internal market price, on day of purchase, and that obtained under the I.W.A. In June of 1953, the Director of

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Finance in the U.S. Department of Agriculture testified to the U.S. Senate Committee on Appropriations that the average of this subsidy during 1949-50 had been 69 cents per bushel—in respect of 253 million bushels. Thus, in that year, the American taxpayers had to provide over \$174 million (more than £60 million) for the privilege of supplying their nation's quota under the I.W.A., and the situation was even more unsatisfactory in the three succeeding years. That such a state of affairs was astonishingly anomalous is beside the point—it is what occurred.

C.6.—EFFECTS ON CANADIAN PRICES

The effect in neighbouring Canada on wheat prices—both internal and external—was inevitable. As the quota supplied by the U.S.A. represented over 40 per cent of the total I.W.A. export, and as the Americans were not disposed further to subsidize their quota—so as to enable American wheat to be sold *via* the I.W.A. at less than 180 cents—it was not to be expected that Canada would offer her share (generally of higher grade than American wheat) at lower than that figure, and Australia and France fell into line. The inflationary effects on the internal economies of the producing countries of these (and other) artificially high prices seems to have been wholly disregarded; but, of course, that could be said to have been their own affair. Unfortunately, however, the repercussions on the economies of some of the importing nations were much more serious—as is made clear, so far as Great Britain is concerned, in Chapter VII.

C.7.—C.I.F. WHEAT PRICES—U.K. WITHDRAWS FROM I.W.A.

During the calendar years 1950 to 1953, in which the effects of the International Wheat Agreement—from 31st July, 1949 till 31st August, 1953—were experienced,

the annual average c.i.f. prices at British ports (following devaluation in 1949) were as follows: 1950—£28 10s.; 1951—£32 11s. 8d.; 1952—£31 1s. 8d.; and, 1953—£30 3s. 4d. When the proposed new I.W.A.—to have effect from July, 1953 till August 1957—was produced for examination, it was revealed that the “Exporting Parties” were demanding that the maximum price (at Fort William/Port Arthur) should be raised from 180 to 205 cents. And, as sales had been maintained at the then permitted maximum of 180 cents during the preceding four years, it did not seem likely that the “Exporting Parties” would allow their future prices to “Importing Parties” to fall much below the new maximum—which was 25 cents higher than 180. The United Kingdom, therefore, withdrew from the I.W.A.; and in succeeding years she obtained her imported wheat at the following rather more advantageous average annual c.i.f. prices: 1954—£26 10s.; 1955—£27 11s. 6d.; and 1956—£28 6s. 8d. Nevertheless, the prices Britain had to pay, up to the end of the first quarter of 1957, were still demonstrably far too high when compared with costs of production in the producing countries, plus reasonable profit and freight charges.

The subject of wheat production—and of its cost—within the United Kingdom is dealt with in Chapter VII, G.3 *et seq.*

C.8.—IMPORTANCE TO PRODUCERS OF LOWER WHEAT PRICES

The main purpose of this review of the incidence of the I.W.A. is to show that the growers as parties to that Agreement were quite prepared to accept lower prices from year to year, with the assurance (as provided under the I.W.A.) that price decline would not become precipitate; in short, that it should be orderly and in keeping with a commonsense application of the law of supply and demand. And there is

much evidence that the outlook of many Canadian growers, as such, has not since materially changed—especially in view of the extent to which artificially high wheat prices have increased the costs of their reciprocal purchases. In an interview published in the *Corn Trade News* in mid-1955 (and subsequently quoted in the *Financial Times*) Mr. W. A. Wilson (who stated that, with the help of one man, he was cultivating 1,100 acres of wheat at Indian Head, Saskatchewan) strongly criticized the price policy of the Canadian Wheat Board. He said his own average costs of production were only 53 cents per bushel; and he added his opinion that "any Canadian farmer whose costs exceed 65 or 70 cents should not be growing wheat at all." As might have been expected, Mr. Wilson's figures have been seriously challenged in Canada. One does not know what factors were brought into account by this gentleman as grounds for his assertion; but, supposing that some relevant items of costing were omitted and that higher than long-term average yields per acre were presumed, it might not be unreasonable to suggest that—in the long-term average—80 cents per bushel (on the farm) might cover all properly chargeable costs; and that an average of 110 cents a bushel (on the farm) could represent a profitable price at which the efficient farmer could prosper.

Taking into account an average freight charge of 20 cents a bushel to convey grain from the Western Provinces to Fort William, this would suggest that (at that centre) the gross cost after paying the grower 110 cents, should not exceed 130 cents per bushel—some 28 per cent below the 180 cents at which the price was maintained (at Fort William) during 1949-50 to 1952-53. And, under the later International Wheat Agreement (which the United Kingdom would not sign) the maximum price was raised to 205 cents. It is to be kept in mind that Canada's wheat export trade is of major importance to that nation's economy; whereas in the U.S.A. the export of wheat (or of anything else) is a

relatively minor matter. As has already been mentioned, unduly high wheat prices in world markets—particularly when these have to be paid in hard-to-come-by dollars—have led to immense acreages being sown to this grain in importing countries on land not nearly so suitable for wheat as are Canada's Western Provinces. The Canadians are well aware of the extent to which they have been pricing themselves out of world markets and that this, in the long term (as was emphasized by Mr. Wilson) can have grave consequences.

C.9.—FOUR ESSENTIAL CONDITIONS

In all these circumstances and in the light of what appears in the paragraphs which follow, it would seem probable that countries holding large surpluses—especially the U.S.A.—would welcome a partial solution of their problem provided there were these four assured safeguards:

- ~ (1) *that no distortion of their internal price structure resulted;*
- ~ (2) *that the methods adopted were acceptable in importing nations;*
- ~ (3) *that such methods were not inimical to the legitimate interests of other nations; and*
- ~ (4) *that the normal volume of commercial exports (from surplus-holding countries) were not materially affected.*

There is not now in operation any means whereby those four (superficially irreconcilable) assurances can be given; but the P.S.C. system could provide them, and there is considerable evidence that (at least) the U.S. C.C.C. would be very interested in the proposed opportunities.

C.10.—U.S.A.'S DESIRE TO REDUCE SURPLUSES

Under U.S. Public Law 480—Trade Development and Assistance Act—as amended in 1956, the Commodity Credit Corporation was authorized to accept up to \$3,000 million worth of foreign currencies in payment for products sold out

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of its surplus holdings; and it would seem that the C.C.C. is particularly anxious to reduce its wheat surplus—which is hardly a matter for surprise when every proper storage facility is so overtaxed that immense quantities of this grain are now stowed in old hangars, in Army huts, in the hulls of idle ships; and—one has read—even in tarpaulin-covered heaps in open fields. The readiness of the C.C.C. to sell for foreign currencies has already been strikingly evidenced on several occasions.

C.11.—U.S. SUBSIDIZES SALES TO INDIA

One of these transactions was the agreement of September 1956 under which immense quantities of C.C.C. surplus products—including 1½ million tons of wheat—were sold to the Indian Government for payment, in rupees, extending over a long term of years; in fact, with 75 per cent of such payment remaining in India as a loan to finance development projects in that country. The U.S. Government had already paid to its own farmers—via the C.C.C.—\$625 million for the products involved; but, for the purpose of this “deal” with India, their value was set at only \$305 million. And, as the U.S. Government undertook to pay \$54 million of the shipping costs, its net ultimate “receipts” will be only \$251 million, which, in effect, represents a 60 per cent subsidy.

C.12.—AUSTRALIA'S PROTEST

The announcement of this transaction immediately gave rise to a strong protest by Australia, which regards India as a natural market, especially for Australian grain; a protest that was quite understandable because the transaction did not contain any proviso as to the minimum price at which this American wheat should be re-sold by the Indian Government to commercial buyers in that country. But, if it had

been laid down (as a condition of the U.S. sale at a very low price) that no re-sale could take place at less than 22·2 per cent above the c.i.f. cost to the Indian Government, Australia would have had far less cause (in fact, 22·2 per cent less cause) to complain. And, under the P.S.C. system precisely that condition would be automatic.

C.13.—CANADA'S ATTITUDE

The attitude of Canada towards this transaction can be gleaned from the following excerpt from the editorial in the *Toronto Star* of 15th September, 1956:

"It may appear mean-spirited to complain about a deal so generous as that which the United States has just made with India. Yet Canada is justified in protesting to U.S. trade representatives, though this transaction will hurt this country less than it does Australia, for India is not one of our traditional markets. But it represents a continuation of the American surplus-dumping policy which has disrupted Canadian grain exports in the past year or two . . . the slowness in marketing our over-abundant wheat is in no small measure due to U.S. 'give-aways' which make real trouble not only for Canada but for other wheat-exporting countries. . . . However, to concentrate only on that side of the subject is to take too narrow a view of the matter. We must also consider what this latest 'give-away' means to India. It couldn't have happened at a better time. . . . It will provide that country with a reserve, for some years, against possible crop failures and famine. The long-range economic benefits will be even more significant, granted wise and efficient administration. . . . The important thing is that India may grow strong enough, economically, to maintain her political independence and stay on the democratic path to progress. If that happens, neither Canada nor any other free country will have any cause to complain about any U.S. 'give-aways' which contributed to that happy result."

C.14.—SUBSIDIZED SALES, ALSO, TO BRAZIL, PAKISTAN AND POLAND

On 1st January, 1957, it was announced that the U.S.A. had agreed to supply Brazil with 1,800,000 tons of wheat—

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in addition to other surplus farm products—for payment at \$138·9 million, in cruzeiros at 67·5 to the dollar—compared with anything up to 70 cruzeiros to the dollar in free exchange. The cost to the U.S. Government—as paid to American farmers for these commodities—was officially stated to have been \$222 million, so that this sale was being subsidized by over \$83 million, or by 37 per cent. Moreover, the cruzeiros payable were all to be retained in Brazil as American investments, chiefly in hydro-electric power projects.

On 2nd January, it was made known in Washington that the U.S.A. had agreed to send wheat to Pakistan to a “value” of \$500 million during the ensuing three years. No doubt these disposals were to be as heavily subsidized as those to India—with payment in Pakistani rupees, to remain as long-term American investments in Pakistan.

During April, it was reported—in *The Times*—that Poland was negotiating with the U.S.A. to buy from half a million to one million tons with payment in Polish currency—on credit extending to twenty years, or longer; and that this had evoked a protest from Canada, which had only recently, herself, sold a half a million tons to Poland. But that was at a *commercial* price (not subsidized as America’s disposal was likely to be) with credit limiting to two and a half years. *The Times* went on to mention that, in the week ending 10th April, Canada’s export clearances of wheat had been only 1,954,000 bushels—compared with 6,190,000 bushels in the corresponding week of 1956. The extent to which those figures were a pointer to Canada’s declining wheat exports would be the measure of their seriousness in the effect on Canada’s economy.

The overall repercussions in Australia were evidenced by a statement on 16th April by the Chairman of the Australian Wheat Board that “the prospects for wheat exports are so bad that farmers will have to switch from wheat to live-stock production.”

C.15.—WOULD THE C.C.C. CONSIGN TO A BRITISH P.S.C.?

With the fulfilment of the four conditions set down in C.9, it would certainly seem probable that (at least) the C.C.C. would favourably consider consigning to a British (or any other nation's) P.S.C.—not to confer any boon or bounty but as a matter of common sense. And it is not unreasonable to suppose that (with those four assurances in effective operation) Canada and Australia would do likewise. It is to be kept in mind, however, that Canada is in a somewhat privileged position, because the greater part of her exported wheat is of a very high grade which British millers consider to be an essential and considerable ingredient in the flour they produce. It has a high protein content, and, excepting from Canada, is in short supply. In this connection, however, a parenthesis may not be out of place. The removal of the bread subsidy in Great Britain in 1956 gave rise to much correspondence in the Press complaining about the general level of quality of British bread, and several writers expressed the opinion that the French-made loaf is greatly superior. If this be true, it is significant that most of the wheat used in France is home-grown, and it is certainly not comparable in protein content with Canadian wheat. In fact, some 600,000 tons of French wheat imported by the United Kingdom in 1955 was cheaper by 20 per cent than that from Canada.

C.16.—VALORIZATON OF WHEAT—POSSIBLE RESULTS

With all the foregoing in mind, we may now consider the possible effects of the P.S.C. system's being in readiness to operate within the United Kingdom in respect of wheat. In the valorization of this grain each of perhaps three standard grades would need to have its own index and points; and (it is suggested) the size of a BLOCK of each

specially indexed grade would be equivalent to one-eighth of a year's average total imports of that grade. The general yardstick by which it would be determined that any grade of any valorized product should have its own index and *points* might be that at least 10 per cent of the total annual average usage in the United Kingdom of that product was of a distinct standard grade—recognized and bought and sold by the trade as such. For the rest, the index and *points* most nearly applicable would apply. The International Wheat Agreement provides a precedent in this regard, in that its maximum and minimum prices were in respect of No. 1 Manitoba wheat; whereas for other grades prices were to be negotiated between commercial buyers and sellers, but they were not to exceed the permitted maximum nor be less than the permitted minimum.

Reverting to the constant maximum I.W.A. price (from 1949 to 1953) of 180 cents and comparing that with the permitted minimum prices (declining by 10 cents annually in each of the succeeding four years) it will be seen that the permitted fluctuations—taking the difference between the maximum and the minimum as a percentage of the minimum in each year, were: 20 per cent in 1949-50; 28.6 per cent in 1950-51; 37.5 per cent in 1951-52; and 50 per cent in 1952-53. That this would hardly have resulted in "stable" prices (which was a prime purpose of the I.W.A.) is beside the point, because the maximum price obtained throughout Under P.S.C. auspices (as soon as stocks were held) the difference between the low and HIGH *points* could not exceed 22.2 per cent.

C.17.—INITIAL INDEX—SIZES OF BLOCKS

Let us now assume that the United Kingdom's annual average import of wheat in the three years prior to its valorization had been 4.8 million tons, and that, of this total,

some half—or 2·4 million tons—had been of a standard grade which we shall call ‘Canalian’; whereby the size of a ‘Canalian’ wheat BLOCK (one-eighth of 2·4 million tons) would be 300,000 tons; (when the sum of the first BLOCKS of each of the other two grades would also equal 300,000 tons). Furthermore, we assume that the *datum* for ‘Canalian’ wheat (which happened to be its market price in Great Britain at date of valorization) was £28 11s. 6d. per ton. Applying the index formula (in Chapter I, A.8) to that *datum* would give an initial index—for ‘Canalian’ wheat—at £25 per ton; with an initial low *point* (at which the P.S.C. would stand ready to buy) at £22 10s.; and a (conditional) HIGH *point* of £27 10s. at which the P.S.C. (if and when it acquired stocks at the low *point*) would sell on demand.

C.18.—ILLUSTRATIVE NOMENCLATURE

The reason for the novel nomenclature in the preceding paragraph is that to apply the figures used for illustration to Canadian—or any other imported wheat—could be misleading. But, by using the description ‘Canalian,’ we can assume a *datum* (as in Chapter I, A.8) from which the initial index would work out at £25 per ton—so as to provide an “easy” figure on which to illustrate the automatic working of this system. It is not suggested that the illustrative figures would, in fact, apply to imports of any particular grade; and it is not possible to anticipate what the actual index would be for any grade. However, the average c.i.f. prices at British ports for all imported wheats in 1955 was about £27 10s. which, if taken as the *datum*, would give an initial index (at 12½ per cent below that figure) of £24 1s.; so that £25 per ton as an illustrative figure is certainly on the high side if related to the average of the initial indices as they would work out in practice.

(Text continues page 82)

SCHEDULE I

SCHEDULE I

ILLUSTRATING HOW 'CANADIAN' WHEAT PRICES COULD BE AFFECTED IN
RESPECT OF (a) CONSIGNMENTS TO P.S.C. AND (b) SUBSEQUENT COMMERCIAL
SALES IN BRITISH MARKETS

For explanation: see C.19 on page 82

BLOCKS with Tonnage Progress (r)	Index (a) (b)	Low POINT (b) (c)	F.O.B. at F.W. per Ton block and cumulative (d) (e)	\$ Equivalents at Fort William			HIGH POINT C.I.F. (f)	Per Ton Bushel (e)	Per Ton (g)	Progressive maximum market Prices compared with £28 11s. 6d. per ton (a)	Reduction in U.K. Exports as at Fort William (h)	'Canadian' Receipts from Commercial Exports as at Fort William (b)	Per Ton (e)	Per 4-8m. Tons (g)	Per Ton (i)	Per 2-4m. Tons (j)	Per Ton (k)	Per Ton (l)	Cents	
				Cost per block and Cumulative (d)	Per block (and cumulative (d)) (e)	\$ million	£ million	£	s.	d.										
				Million tons	£	£	£	£	£	£										
100	(1) 0·3	£25·00	£22·50	£6·75	£4·35	\$22·50	£40·60	108·8	£27·50	£1	1	6	£5·16	£54·60	146·4					
	(2) 0·6	£23·75	£21·375	£6·4125	£4·0125	\$11·235	£37·45	100·4	£26·125	£2	9	0	£5·88	£11·76	36·0					
	(3) 0·9	£22·50	£20·25	£6·075	£3·675	\$10·20	£34·30	92·0	£24·75	£3	16	6	£9·18	£18·36	46·90					
	(4) 1·2	£21·25	£19·25	£5·7375	£3·3375	\$9·334	£31·15	83·5	£23·375	£5	4	0	£12·48	£24·96	43·05					
	(5) 1·5	£20·00	£18·00	£5·40	£3·00	\$8·40	£28·00	75·1	£20·00	£6	11	6	£15·78	£31·56	39·20					
	(6) 1·8	£18·75	£16·875	£5·0625	£2·6625	\$7·454	£24·85	66·6	£20·325	£7	19	0	£19·08	£38·16	35·35					
	(7) 2·1	£17·50	£15·75	£4·725	£2·325	\$6·51	£21·70	58·2	£19·25	£9	6	6	£22·38	£44·76	31·50					
	(8) 2·4	£16·25	£14·625	£4·3875	£1·99	\$5·52	£18·55	49·7	£17·875	£10	14	0	£25·68	£31·36	27·65					

(a) With datum at £28 11s. 6d.—vide A.8, Chapter I. (b) With Automatic Adjustments. (c) Delivered to P.S.C. (d) With cumulative costs in brackets. (e) With shipping costs averaged at £8 per ton, 60 cents a bushel. (f) British market ceiling when P.S.C. has reserves. (g) Assuming the same ratio of market price reduction for a total annual import of 4·8 million tons. (h) Assuming that market prices remained at the level of the operative HIGH point.

C.19.—PARTICIPATION A MATTER FOR EXPORTERS' DECISION

Whether or not the 'Canalian' wheat-marketing authorities decided to consign *any* wheat to the P.S.C. for sale at the low *point* of £22 10s. would be exclusively a matter for their own decision; but, if they did so, the British *market* price for that grade of wheat could not then be above the (then effective) *HIGH point* of £27 10s. Illustrative Schedule I, on the preceding page (which should be examined in detail if what follows is to be clear), shows precisely how this system could affect 'Canalian' prices in respect of (a) sales direct to the P.S.C. and (b) subsequent commercial sales in British markets. This Schedule was compiled on the following four assumptions: (1) that the initial index for this wheat was set at $12\frac{1}{2}$ per cent below a (then) market price of £28 11s. 6d. per ton—i.e. at £25 per ton; that 'Canalia's' average annual exports to British markets had been 2·4 million tons in recent years; that the size of a BLOCK of 'Canalian'-type wheat was therefore 300,000 tons ($12\frac{1}{2}$ per cent of 2·4 million); that freight charges as from Fort William to British port averaged £8 per ton; and that the exchange rate was £1 = \$2·80. It will be seen that if the 'Canalians' sold one BLOCK (300,000 tons) to the P.S.C. (and subject to the important proviso in C.21 to follow) they would receive £6,750,000 from that source (column 4 of Schedule I) plus their receipts from the usual volume of their sales in British commercial markets, but at not less than £1 1s. 6d. per ton lower than at the time of valorization; (column 10). If they sold two BLOCKS to P.S.C. they would receive £13,160,000 from that source (column 4 *cumulative*)—again plus their receipts from their usual volume of commercial sales; but the maximum prices for these would then be £2 9s. per ton lower than at date of valorization (column 10, second line); and so on. However, on the assumption that the volume of 'Canalian' commercial exports remained constant, but at prices that were lower by

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£1 7s. 6d. per ton with each additional BLOCK disposed of to the P.S.C., and, although receipts from P.S.C. were added to proceeds from commercial sales, a point could be reached when the total receipts (from commercial sales plus those to P.S.C.) would aggregate a lower figure per annum than the 'Canalians' had received in the year prior to valorization. However, it may confidently be anticipated that the 'Canalians' would not allow *that* to happen; and that they would be unlikely to consign more than, perhaps, three BLOCKS to the P.S.C.

C.20.—THE PROS AND CONS

In the foregoing connection, particular attention is invited to a second illustrative statement—Schedule 2—on page 85 which shows what the 'Canalians' net receipts would be for consignments—BLOCK by BLOCK—to the P.S.C., plus their receipts from consignments to the British market. Shipping charges are, of course, a very important factor. At the time these two Schedules were compiled, the average transatlantic shipping costs were about £8 per ton—equivalent to 60 cents a bushel. But, in the months that elapsed before the proofs were finally revised, these freights fell by from £1 to £2 per ton. And every reduction of £1 per ton in such costs—if met by the shipper—means an increase in receipts of $7\frac{1}{2}$ cents a bushel.

Once again it is emphasized that the surplus-holding countries would be the sole judges as to the extent to which they would consign to P.S.C.; and this, in effect, would mean that they would remain the arbiters (as they have been for several years) as to the level of prices which they would accept in the market. Without doubt, they would weigh the advantages of their reduction of their embarrassing surpluses against the disadvantages of consequential (but controllable) lowered market prices—especially after they had ceased to consign to (and therefore

ceased to receive payments from) the P.S.C. But there would be another important factor. A substantial and sustained lowering of their commercial prices would certainly result in a great increase in the volume of their total exports—at least to the extent that this resulted in a reduction of wheat-growing in importing countries which—it is reiterated—has been greatly stimulated owing to the artificially high prices of imported wheat since the second world war.

In this regard—on the basis of the illustrative figures in Schedule 1—if the P.S.C. were holding (say) more than three BLOCKS of ‘Canalian’ wheat, the maximum price then obtainable in the British Market would be £24 15s. od. per ton (column 9) which would be lower by £3 16s. 6d. (column 10) than at date of valorization. With such a volume of wheat held in P.S.C. reserve, pressure on—or strong inducements to—British farmers to continue to produce this grain in a very large way could safely be relaxed—*vide* Chapter VII, particularly G.6. Assuming that BLOCKS of other types of wheat, also, had been taken into P.S.C. reserve, it might well be that the United Kingdom’s *commercial* imports (at much more favourable prices than theretofore) could be expanded by (say) 1 million tons. And that could mean an increase in ‘Canalian’ exports of some 20 per cent; whereby, instead of exporting 2·4 million tons commercially to the United Kingdom, at an average of £28 11s. 6d. to obtain £68,680,000, they could sell to importers upwards of 3 million tons which, at £24 15s. od., would increase their return from *commercial* exports by over £5 million to more than £74 million. This, of course, would be additional to receipts from consignments to the P.S.C.; and there would be no reason why British commercial importers should not continue annually to absorb that increased volume of wheat. Finally, whatever was the early attitude of the ‘Canalians’ in regard to this system, if the U.S.C.C.C. commenced to consign to the P.S.C., the ‘Canalians’ would perhaps find it expedient to do likewise.

SCHEDULE 2

'CANALIA'S' POTENTIAL NET RECEIPTS FROM CONSIGNMENTS—BLOCK BY BLOCK—
TO P.S.C. PLUS RECEIPTS FROM SALES IN UNITED KINGDOM MARKET WHERE
THE (THEN) PRICE COULD NOT BE ABOVE THE (THEN) HIGH POINT

See C.20 and C.21

RECEIPTS (IN BONDS) FROM P.S.C.				SUBSEQUENT RECEIPTS IN UNITED KINGDOM MARKET				TOTAL RECEIPTS—IN BONDS PLUS CASH (d)		
Blocks if Consigned as Below (1)	P.S.C. Pays (Bonds) (a) (2)	Receipts in Dollars net at Fort William (b) (3)	Maximum Market Price is Then (c) (4)	At which Receipts per Ton are (5)	At which Receipts per 24 m. Tons are (6)	Column 3 plus Column 6 (e) (7)	Compare with Sale of 2½ m. tons at £28 11s. 6d. (f) 20 11s. 6d. net (8)	Gross Increase or Decrease in Net Receipts (e) (9)	\$ million	\$ million
1 BLOCK ..	£6·75	\$12·18	£27·50	\$54·60	\$131·04	\$143·22	138·26	plus \$4·96		
2 BLOCKS ..	£13·16	\$23·41	£26·12½	£50·75	\$121·80	\$145·21	"	plus \$6·95		
3 BLOCKS ..	£19·24	\$33·71	£24·75	£6·90	\$112·56	\$146·27	"	plus \$8·01		
4 BLOCKS ..	£24·97	\$43·05	£23·37½	£43·05	\$103·34	\$146·37	"	plus \$8·11		
5 BLOCKS ..	£30·37	\$51·45	£22·00	£29·20	\$94·68	\$145·33	"	plus \$7·27		
6 BLOCKS ..	£35·44	\$58·90	£20·62½	£35·35	\$84·84	\$143·74	"	plus \$5·48		
7 BLOCKS ..	£40·16	\$65·41	£19·25	£31·50	\$75·60	\$141·01	"	plus \$2·75		
8 BLOCKS ..	£44·55	\$70·99	£17·87½	£27·55	\$66·36	\$137·35	"	minus \$0·91		

(a) See C.21. (b) With freight at £8 per ton. (c) P.S.C. high point. (d) Unless selling competition in U.K. market forced prices below high point. (e) Net receipts diminished disproportionately when compared with the diminution in the scale of reductions in the high point (and in the high point) which is based on c.i.f.—with freight here presumed paid by consignor at the constant rate of £8 per ton. Thus, the lower the c.i.f. price (with freight constant) the greater is the proportion of gross receipts which is paid (by the consignor) as freight; and his net receipts fall accordingly. Conversely, every 1 per ton less freight (saved by the consignor) increases his net receipts by 7½ cents per bushel.

In adopting such a course they would be reverting to a policy which had certainly seemed acceptable to all the "exporting parties" to the International Wheat Agreement when it was signed early in 1949. There would be a sort of poetic justice involved in such a trend of events in that, while it had been the (then) policy of the C.C.C. which had prevented I.W.A. prices falling by reasonable stages from 1949 to 1953, it would be the new policy of the same C.C.C. which could bring about more or less the same scale of market price reduction as it had been intended to facilitate from 1949 onwards.

Nevertheless, some people may argue that 'Canalia' would be ill-advised to consign any wheat to the P.S.C.; and that might be so if 'Canalia' were the monopolist of exported wheat supply. But that would not be the case and, in any event—as 'Canalia' is here presumed to be holding enormous stocks for which there is no market in prospect—it would seem poor economy to go on increasing her surplus in order to keep prices at artificially high levels; a fact of which the people of 'Canalia' would be all too well aware, because they, also, have to pay these high prices for home-consumed wheat both as flour and as animal feeding-stuffs. Their wheat-marketing authority's problem is that the growers have to be paid not only for the wheat which is home-consumed or exported but also for the surpluses which continue to increase. It is evident that, excepting in the U.S.A., what the growers receive per bushel in surplus-holding countries must be much below what the buyer has to pay, after taking into account all transport and other marketing charges.

C.21.—DEFERRED PAYMENTS FOR CONSIGNMENTS *From Surplus*

In considering the ultimate advantages that could accrue to the British people from their successful operation of

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the P.S.C. system, full regard must be paid to the possible effects on the United Kingdom's balance of external payments problem. So far as valorized products that are not in surplus supply (in the sense that producing countries are holding burdensome surpluses) are concerned, the operations of the P.S.C. system would not be likely to affect this problem—other than favourably—in the long term. This is made clear in Chapter V. But, if payments had to be made for heavy consignments to P.S.C. of (e.g.) grain (in addition to payments for commercial imports) special measures would need to be taken to ensure that this did not aggravate the (then) external balance-of-payments problem. As has been made very clear, whether—and, if so, to what extent—or not the surplus-holding authorities would wish to consign part of their holdings to the P.S.C. is an open question. If they did not do so, the external trading position would be unaffected; and the United Kingdom would probably have to continue to pay the high prices that surplus-holders would be able to obtain by adhering to the methods they have adopted hitherto. However, if they saw merit in consigning to P.S.C.—and much of this Chapter has gone to show that it is not improbable that they would do so—it would not be unreasonable for the P.S.C. to restrict the form of payment (but only for commodities known to be in burdensome surplus) to non-negotiable sterling bonds maturing (say) three years after issue; and that is the course which, it is suggested, should be adopted. And, inasmuch as payments to the U.S.A. for its disposals of 1½ million tons to India, and for similar large sales to Brazil and Pakistan in January 1957, were all to be in the currencies of those countries—with settlement deferred for long periods, if not indefinitely—there seems no reason to suppose that the U.S. Commodity Credit Corporation would not accept three-year sterling bonds—especially when none of the wheat so disposed of could reach the commercial market excepting at a premium of .22·2 per

cent, a safeguard which did not apply to the Indian, Brazilian and Pakistani transactions. And it might well be that Canada, also, would be prepared to accept payment—for consignments to the P.S.C.—in the same form.

C.22.—CONSEQUENTIAL REDUCTION IN EXTERNAL PAYMENTS

Under such an arrangement, Britain's external payments for wheat, far from being increased, would be reduced, because, if any debt was so incurred, the resulting immediate fall in the price of wheat bought commercially (and involving the usual prompt settlement, chiefly in dollars) would represent a saving much greater than the amount to be paid in sterling for the redemption, after three years, of such bonds. On the basis of the figures given illustratively in Schedule I, if the P.S.C. acquired say three BLOCKS the cost of which, in bonds, was some £19 million (column 4, third line *cumulative*) the (then) market price (for 'Canalian' grade wheat) could not be above the then HIGH point of £23 7s. 6d. per ton, which, if Britain continued to import the usual 2·4 million tons from 'Canalia' (and compared with the prices she had had to pay before the inauguration of the P.S.C.) would mean a minimum saving (in dollars for the most part, to be provided by British wheat importers) of about £12½ million annually (column 11, fourth line)—or some £37 million in three years. Thus, the debt of £19 million, which—with interest—might then total £22 million, could be repaid (as it were out of the £37 million already saved or certain to be saved) while leaving the United Kingdom as a nation with something in the nature of a credit balance of perhaps £15 million. Moreover, the British P.S.C. would then be holding 900,000 tons of debt-free wheat as a stabilizing factor for so long as any part of this was so held. Without doubt BLOCKS of other grades of wheat, also, would have passed into P.S.C. reserve, in which event the saving in market prices would

be as shown, progressively, in column 12; that is, the ratio of debts in three-year bonds to savings in market prices would be the same as for 'Canalian' wheat. And it is to be kept in mind that if overseas suppliers catered for the British market at prices below the level of the then operative *HIGH point*, the savings to buyers and in the nation's external disbursements would be correspondingly greater.

Though much of what appears in the preceding paragraph is a repetition of what is in C.20, that was written to show the seeming advantages of this system to the surplus-holders; whereas what is immediately above serves to show the benefits which could accrue to the United Kingdom. The potential effect of all this on British farming is dealt with in Chapter VII.

C.23.—EFFECTS ON INTERNAL ECONOMIES OF EXPORTING NATIONS

There is little doubt that, to the extent to which the 'Canalians' consigned to the P.S.C. with resultant lowering of commercial export prices, prices in the 'Canalian' domestic market, also, would fall to realistic levels—in due course. And the effect on the internal economy of 'Canalia' would probably be as beneficial as wheat at realistic prices would be on the economy of the United Kingdom.

C.24.—MULTI-NATIONAL APPLICATION OF THE SYSTEM TO WHEAT

It would be desirable—but not essential—that each of the countries which were parties as importers to the International Wheat Agreement of 1949 should establish its own P.S.C. As shown in C.3, the total volume which those nations undertook to buy annually up to 1953

(under that agreement) was some 12 million tons—of which the United Kingdom's quota was about $4\frac{1}{2}$ million tons. And it would be very desirable—though, again, not essential—that each such P.S.C., in applying this system, should adopt the same general formula by fixing its initial index at $12\frac{1}{2}$ per cent below a datum arrived at as suggested in A.8; setting its *points* at 10 per cent below and above index; adopting $12\frac{1}{2}$ per cent of its average annual imports as the size of its BLOCK; and reducing its index and points by 5 per cent at the intake of each additional BLOCK—after the first. If, in fact, all the nations that were importers under the I.W.A. of 1949 did fall into line, it would mean that the aggregate of the first BLOCKS could represent $12\frac{1}{2}$ per cent of 12 million tons (see C.3)—viz. $1\frac{1}{2}$ million tons, which, in such circumstances, could be transferred from the surplus-holding countries to importing nations—without disrupting the internal price structure anywhere, and to great mutual advantage.

C.25.—EXPORTERS' INTEREST SAFEGUARDED

There would be no danger of this system's getting out of hand from the viewpoint of the nations holding the surpluses whose marketing authorities would each decide if (and how many) BLOCKS should be consigned to the various P.S.C.s. But the inducement to get rid of part of their burdensome holdings, as has been shown, would be very strong when they had the unprecedented assurance that wheat sold to any P.S.C. at its low *point* could not reach the commercial market excepting at that P.S.C.'s HIGH *point*. No selling authority would be likely to consign a second BLOCK to any nation's P.S.C. till all other P.S.C.s had obtained their first BLOCKS. Each P.S.C. would pay—and accept payment—only in its own national currency; and, any nation's P.S.C. which preferred to offer deferred bonds (instead of cash) in terms of its own currency in

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respect of wheat (or of any other product known to be held in burdensome surplus in a producing country) as has been suggested for the British P.S.C.—could do so at will. Chapter VIII shows the extent to which the multi-national adoption of this system to a wide range of basic commodities could achieve both reasonable internal price stability and multi-national price parity for such products.

C.26.—CANADA'S POSSIBLE REACTIONS—IF C.C.C. CONSIGNMENT TO P.S.C.

Reactions to the U.S.A.'s heavily subsidized wheat disposals to India, for long-deferred payment in rupees, were expressed in the quotation from an Editorial in the *Toronto Star* which appears in C.13. What now follows is an attempt to anticipate the sort of terms in which an Editorial could be written in any Canadian journal in the event of an announcement that the U.S.A. Commodity Credit Corporation had commenced to consign wheat to the British P.S.C.

That the U.S.A. has begun to ship wheat to Great Britain at a c.i.f. price $21\frac{1}{2}$ per cent below what the British have been paying recently for that grade, and with payment in sterling deferred for three years, would ordinarily cause consternation throughout Canada; because the United Kingdom is our most important wheat market. But these consignments—and others of the same sort which may follow—are certainly not ordinary transactions. All are being sent to what is called the British Price Stabilizing Corporation; and none of the grain so acquired can reach the British commercial market excepting at a premium of $22\cdot2$ per cent above what this Stabilizing Corporation is paying for it. But it does mean that the commercial price for this grade of wheat must fall by at least $3\frac{1}{2}$ per cent. All this is based on what the British call their wheat-valorizing index, the automatic operation of which is described by our Special Correspondent in an article on another page of this issue.

In short, these consignments out-of-surplus to the British P.S.C. are on an entirely different basis from the sales of American wheat to

India, Pakistan and Brazil; because, in all those cases, there was nothing to prevent the purchasing Governments from selling the grain (so acquired) at the heavily subsidized price they are paying for it—or, indeed, at a still lower price, if they chose so to do. In contrast the British system provides a positive safeguard against anything of that sort. In effect, all purchases by this Stabilizing Corporation are *additional* to the United Kingdom's usual volume of commercial imports—always provided that these latter are priced at no higher than the P.S.C.'s selling price. Thus, the Americans will receive payment both (a) for sales to the P.S.C.—this in the form of non-negotiable three-year sterling bonds; and (b) for all commercial sales—with prompt settlement in dollars. And three-year sterling bonds are clearly to be preferred to the costly maintenance, as sterile surplus, of the grain involved in (a).

It is open to Canada (and to every other wheat-exporting country) to deal with the British P.S.C. on precisely the same basis—with an appropriately higher index for superior-grade wheat. That is to say, Canada can now consign a substantial part of her surplus stocks to the British P.S.C. with an assurance that her commercial exports to the British market (at a slightly lower price than that obtained in recent years) far from diminishing, are likely to increase by a substantial percentage. In effect, Canada's total exports to Britain can be very greatly increased in volume by our acceptance of an over-all reduction in price which, however, would be far more than offset by the aggregate value of sales during the next few years. Moreover—and this is of outstanding importance to our growers—a reduction in the c.i.f. price of wheat imported commercially by Britain (as distinct from consignments to the P.S.C.) coupled with the establishment in the United Kingdom of large reserves (so administered that they cannot reach the market excepting at a price 22·2 per cent above what was paid for them) would inevitably lead to a relaxation of pressure on British farmers to continue to maintain their average postwar output. And every reduction in home-grown wheat in Britain would mean increased commercial imports from which Canada could benefit.

This would appear to be a mutually advantageous system that will do much to strengthen Britain's economy, and which—far from being at all inimical to the interests of wheat-exporting countries—will materially assist in the solution of their problems of burdensome surpluses. And this will be hastened to the extent to which other great wheat-importing nations follow the example which has been given by the United Kingdom.

C.27.—MAIZE, COTTON AND TOBACCO

With wheat prices as in C.7, it was not to be expected that those paid for maize would be any more reasonable—although the U.S. Commodity Credit Corporation continued throughout to add to its burdensome surplus of this grain. The following were the average annual c.i.f. prices paid per ton at British ports from 1949 onwards: 1949—£21 10s.; 1950—£31 18s. 4d.; 1952—£38 3s. 4d. (the highest average annual price ever recorded); 1953—£28 18s. 4d.; 1954—£26 10s.; 1955—£26; and 1956—£26 18s. 4d. If maize, a most important ingredient in feeding-stuffs for live-stock, were valorized on the formula in A.8, there would seem to be as much likelihood of the P.S.C. acquiring stocks from the C.C.C. as in respect of wheat—with consequential reductions in market prices in inverse ratio to the number of BLOCKS the P.S.C. obtained.

Similarly, if the P.S.C. valorized cotton and tobacco—which would seem highly desirable—the likelihood is that it would acquire substantial reserves of both these commodities in due course.

CHAPTER IV

COMMODITY SUPPLIES IN GENERAL

D.1.—STABILITY—AT A PRICE

It is noteworthy that the basic products whose prices have been unusually stable in recent years are those whose producers have been so well organized since the war that they have been able to control the flow of their products on to both their domestic markets and world markets. And, as was shown in Chapter III, this is particularly true of wheat—as it is of other grains and of cotton. But (in respect of those commodities) it has been stability at artificially high levels—and with unfortunate consequences for the great majority of people.

However, it is as well to have in mind the state of affairs which obtained in the interwar years. Speaking in 1938, the late Lord Keynes mentioned that, during the preceding decade, the average excess of the year's high wheat price over the year's low wheat price (in British markets) had been 70 per cent; and that in only one of those years was the difference down to 47 per cent. After describing these—and other examples—as "truly frightful fluctuations," Lord Keynes went on to say "Under such conditions it is not possible to maintain any orderly programme of output either of raw materials or of their manufactured products—to say nothing of foodstuffs."

Having experienced the worst of both worlds—markets that were bottomless pits in the thirties, on the one hand, and price maintenance at artificially high levels in the fifties, on the other—it is now evident that both producing interests

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and consuming interests would be best served by a system that could insure against both these extremes.

D.2.—POSTWAR PRICE MOVEMENTS

There now follow brief statements to indicate what the general postwar supply-and-demand position has been in respect of several essential commodities of which there are not "managed surpluses"—in the sense that wheat, maize, cotton, and tobacco are in "managed" surpluses. In each case now to be referred to, the range of British market price fluctuations—in postwar years—is a summary of more detailed figures given in Appendix II. This is the only basis on which the supply-and-demand position—in those years—can be gauged, as some indication of what may recur in the future. But there is one possibly very important factor which cannot be assessed.

D.3.—DISPOSALS FROM STRATEGIC RESERVES

Several Governments hold large undisclosed volumes of strategic reserves; and no one knows what is to happen in respect of these, or of some of them. But it may be anticipated that, with that progressive relaxation of international tensions for which we all hope, large volumes of such reserves may be sold, from time to time, for then current use. As one example, the British Government "released" 36,000 tons of copper in 1956—an action which could not be foreseen; just as other similar disposals, in Great Britain, America, and elsewhere, cannot be foreseen.

It is now suggested that, if the proposed Price Stabilizing Corporation were established, all such Government disposals in Great Britain should be to this Corporation—with payment at the relevant low point. Supplies so acquired by the P.S.C. could not then reach the market at lower than

the relevant *HIGH point*. If deemed necessary, it could be a condition that, if sales of any product so acquired were later effected by the P.S.C., the *net profit* on the premium of 22·2 per cent earned by the P.S.C., should be paid over to the Government Department that had supplied that commodity with (initial) payment at the low *point*. It might well be that action on these lines could enable the P.S.C. to function with full advantage to consumer-interests (in respect of products sold to it out of strategic reserves) much sooner than otherwise. If, for example, British strategic reserves of wheat were sufficient to permit of (say) 500,000 tons of this grain (or even half that amount) being disposed of to the British P.S.C. (if and immediately it was established) with payment at the low *point* resulting from an application of the formula in A.8, this would mean that the then *market* price would be *at least* $3\frac{3}{4}$ per cent below what it had been on the day prior to the P.S.C. having acquired stocks; and, for so long as P.S.C. held *any part* of such reserves of this grain, the *HIGH point* would remain effective —at least in respect of the grade of wheat which was held by the P.S.C. However, whether or not strategic holdings of wheat (or of other products) are such as would permit of such action being taken with (strategic) safety is a matter on which none outside official circles could form any opinion.

D.4.—RUBBER

Rubber was decontrolled on 1st January, 1947, in which year the maximum price, at 16d. per lb., was 97 per cent above the minimum at 8½d. In the succeeding years, up to the end of 1956, the percentage differences by which the maximum price exceeded the minimum in each year were as follows: 37, 52, 373, 80, 95, 66, 92, 75, and 68 per cent. The highest price over these years was 73d. in 1950, 798 per cent over the lowest—8½d. in 1947. Turning back to the

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interwar years, the highest *annual average* price for rubber was 25d. during 1925; and the lowest *annual average* was 2½d. throughout 1932.

As over 90 per cent of all plantation rubber comes from south-east Asian territories, in parts of which the political—and economic—situation is far from stable, it would seem highly desirable that large reserves of this important material should be carried under P.S.C. aegis. That growers—receiving income both from their market sales and from sales to the P.S.C.—would welcome the assurance that would be provided by a floor in the market is hardly likely to be questioned; and user-industries would certainly welcome continuity of supply within a known range of market price fluctuations which would then be limited—in respect of all large-scale dealings—to 22·2 per cent. While there would be no reason why synthetic rubber should not be valorized, the necessity for this would not seem likely to arise; because it is improbable that its makers would over-manufacture this product.

D.5.—WOOL

Wool was decontrolled on 1st January, 1947. The figures which follow relate to "merino 64's—clean basis." During 1947, the maximum price for this grade, at 72d. per lb., was 58 per cent above its minimum at 45½d. In the succeeding years, to the end of 1956, the percentage differences by which the maximum price exceeded the minimum in each year were as follows: 30, 25, 79, 180, 24, 16, 31, and 21. The highest price in that period (and the highest ever recorded—excepting for small "parcels" of special wools) at 314d. in 1951, was 590 per cent above the lowest—which was 45½d. in 1947. Looking back over the interwar years we find that the highest *annual average* price was in 1924—at 77d.; whereas, throughout 1932, the average was only 19½d.

While it was to be expected that the postwar demand for wool would be very great, especially when the rationing of clothing in Great Britain and elsewhere was abolished, few could have foreseen that the immense stocks which had accumulated during the war (apart from strategic reserves, i.e. under producer-control) would be so quickly disposed of—especially in view of the spectacular increase in output of this product in recent years. Much less could it be foreseen that this was to be accompanied by very high—sometimes phenomenally high—prices.

According to *Wool Outlook*, the official journal of the Australian Bureau of Agricultural Economics, of December 1956, the number of sheep in Australia (the world's most important source of supply, especially of fine wools) had increased from an annual average of 111 million, during 1934-38, to 136 million in 1956—or by 23 per cent. Moreover, whereas the average yield of wool per sheep had been 8.96 lb. during 1934-38, it had increased to 10.88 lb. in 1956. The result was that, while the total annual average output in 1934-38 had been 995 million lb., it amounted to 1,480 million lb. in 1956. In June of 1957, Sir Ian Clunies-Ross, Chairman of the (Australian) Commonwealth Scientific and Industrial Research Organization (and a wool expert of international standing in his own right) forecast a still further huge increase in output during the ensuing five years, in which (he stated) Australia's wool production would probably advance "from the present 4½ million bales to 6 million bales annually." No doubt that forecast was on the assumption that the Australian pastoral industry would enjoy a continuation of reasonably favourable seasons.

In the same month, the World Textile Organization and the Commonwealth Economic Committee issued a joint statement regarding production of wool in the "free" world as a whole—which was shown to have increased (for the ninth successive year) to 4,169 million lb. (greasy basis)

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in 1956-57. That was nearly 20 per cent above the corresponding annual average from 1934 to 1939; and it constituted an all-time record. To the extent that "there is no substitute for wool" (as we are so constantly reminded in the wool producers' very attractive advertising in Great Britain) it may be that progressively-improving living standards throughout the world will lead to consumption being not much below output for several years to come. Nevertheless it would seem highly desirable to have the P.S.C. in readiness to take in the slack of over-production, should the necessity arise. This is clearly desirable, also, from the consumers' viewpoint, especially in respect of a product whose output is so dependent on seasonal factors as is the wool industry. In this connection, at the time of writing, there has been a widespread drought of several months' duration in Australia. If it continues into the southern summer, it could result in tens of millions of sheep perishing—and in a great reduction in the yield of wool per sheep that survived. This sort of thing has happened—all too often—before; but it is to be hoped that, before this book has been published, there will have been good rains in all the States. The whole economy of Australia depends on a prosperous wool industry, and a long and serious drought could have grave consequences. And, in the same logic—given good seasons and a constantly-increasing output of high-grade wool—if at some stage in the future, the bottom fell out of the market for this product (as has often occurred in the past) Australia's whole economy would suffer. Whereas, if the P.S.C. stood ready to operate—at the behest of sellers—Australia's security in this regard would have been underwritten as never before. Those directly concerned in this industry may be particularly interested in what appears in the section devoted to copper—which follows at D.9.—with particular reference to the consequences at the time of writing of (probably temporary) over-production of this metal.

D.6.—RAW COTTON

As postwar prices of all American cotton have been maintained at above the minimum guaranteed to American growers by the U.S. C.C.C.; and as Egyptian cotton sales have been at Government-controlled prices, there has been very little market price fluctuation in any part of the world. And because all importing by the United Kingdom, up to 1955, was done by the Government-sponsored Raw Cotton Commission, there is no ready means of ascertaining the maximum and minimum prices British user-industries have had to pay in each year since the war. However, the maximum and minimum *spot* prices for American Middling ($\frac{1}{2}$ in.) averaged over fourteen American markets since 1946, show that the widest fluctuation (during the eleven years to the end of 1956) was in 1946—when the maximum, at 36·9 cents, was 49·4 per cent higher than the minimum, at 24·7 cents. Thereafter, the maximum corresponding variation was in 1951—when the highest price at 45·2 cents was 29 per cent above the minimum at 35 cents. During 1953/54/55 the variation was not above 4·2 per cent in any year; and it was down to 2·8 per cent in 1953.

This was unprecedented market-price stability—but it was at the cost of building up enormous unsaleable surpluses for which the American taxpayer had to provide the dollars paid to the producer; and commercial sales have been at artificially-high prices throughout. The extent (if any) to which a British Price Stabilizing Corporation would acquire stocks consigned to it out of surplus is an open question that has been dealt with at length, in regard to wheat, in Chapter III. The *pros* and *cons* there set out would seem to apply, also, to American cotton. The facilities for acquiring sterling, under P.S.C. auspices, might appeal strongly to the Egyptian Government, which could sell part of its surplus cotton to the P.S.C. and lodge a considerable proportion of

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the balance in P.S.C. custody—while still in Egyptian ownership. When necessary, it could then ration supplies to the market (quite legitimately) in such a way as to keep market prices at—or somewhat above—the then operative index for Egyptian cotton. And, no doubt, this system would appeal to Sudan, and to Commonwealth growers.

D.7.—OTHER INDUSTRIAL FIBRES

JUTE. Over the period 1950 to 1956, inclusive, the maximum price for jute (*L.J.A. firsts*); at £229 per ton (c.i.f., United Kingdom) in 1951, exceeded the minimum, at £73 in 1952, by 213 per cent. Year by year, commencing 1950, the variations on the same basis were as follows: 12·3 per cent, 90·8 per cent, 140 per cent, 30·3 per cent, 33·7 per cent, 36·2 per cent, and 36·6 per cent. Some of these fluctuations were very disconcerting to Pakistan which is the main source of supply of raw jute. Though India, also, grows jute, most of the producing areas went over to Pakistan on partition; and India—where jute manufacturing is a major industry—is a considerable net importer of this fibre. The effect of the very high prices, from time to time since the war, has been to cause many ultimate user-industries which had hitherto used jute for packing their merchandise to have recourse to more economical substitute materials.

SISAL HEMP. Over the period 1950 to 1956, inclusive, the maximum price for sisal (*B.E.A. No. 1*), at £250 per ton (c.i.f., United Kingdom) in 1951, exceeded the minimum at £69 in 1955, by 271 per cent. Year by year, commencing 1950, the variations on the same basis were as follows: 60·0 per cent, 25·0 per cent, 152·7 per cent, 8·8 per cent, 50·7 per cent, 23·2 per cent and 26·7 per cent. Such wide fluctuations as occurred in some of these years were highly embarrassing both to British East African growers and to all user-industries.

MANILLA HEMP. Over the period 1950 to 1956, inclusive,

the maximum price for Manilla hemp (*J.2*), at £218 per ton (c.i.f., United Kingdom) in 1951, exceeded the minimum, at £83 in 1954, by 162·7 per cent. Year by year, commencing 1950, the variations on the same basis were as follows: 90·7 per cent, 37·2 per cent, 78·8 per cent, 29·8 per cent, 44·5 per cent, 17·7 per cent and 32·2 per cent.

OTHER HEMPS. The fluctuations in prices of Benares Sun hemp (*No. 2*) followed much the same general pattern as for Manilla hemp—with prices ranging from £132 per ton (c.i.f., United Kingdom) in 1951, down to £55 in 1953—a difference of 140 per cent. In contrast, the prices of Italian hemp (*S.B.*) were relatively stable by comparison—with a maximum of £288 (c.i.f., United Kingdom) in 1956, which exceeded a minimum, at £199 in 1950, by 69 per cent.

FLAX. Over the period 1950 to 1956, inclusive, the maximum price for flax (*Belgian medium W.R.*) at £504 per ton (c.i.f., United Kingdom) exceeded the minimum at £280 in 1956, by 80 per cent. Year by year, commencing 1950, the variations on the same basis were as follows: 20·7 per cent, 23·5 per cent, 38·1 per cent, 12·6 per cent, 14·0 per cent, 9·6 per cent and 4·2 per cent.

D.8.—EFFECT ON PRICES OF THE KOREAN WAR

While fears of large-scale war arising out of the Korean conflict caused prices of nearly all basics to rise steeply in 1951, this influence was particularly felt in regard to commodities produced for the most part, if not exclusively, in what might have become the main zones of extensive hostilities. Such rises in prices were accepted philosophically by user-industries, and they were perhaps much more than “counterbalanced” (so to speak) by the relief in world tensions resulting from the ultimate successful outcome of the United Nations’ intervention. None can foresee whether or not there may be other serious flares-up in the future which could cause further disconcerting steep rises in prices of

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many basics. However, if—by that time—large reserves were held under P.S.C. auspices, there would be very little panic buying in British markets. No buyer would make any large purchase in the market at above the figure at which he could buy from the P.S.C. (i.e. at its HIGH point)—unless it was feared the Government was likely to step in and take over P.S.C. stocks, to be held as strategic reserves; *vide A.17.*

D.9.—COPPER

This metal was decontrolled on 5th August, 1953, and in the remaining five months of that year its maximum price, at £247 per ton, was 14 per cent above its minimum at £216. In the succeeding years, however, the percentage differences by which the maximum price exceeded the minimum in each year were: 44, 40 and 47. The highest price in that period (and the highest ever recorded) was £437 during 1956, which was 102 per cent above the minimum at £216 in 1954. During the interwar period the highest *annual average* copper price was in 1929 at £7; while the lowest *annual average* was a little above £30—in 1934.

D.10.—OUTPUT RESTRICTION IN 1957

The outlook for copper producers in 1957 was so uncertain that early in June the Rhodesian Selection Trust, which controls the principal group of mines in Northern Rhodesia (where the proved copper-ore reserves are said to exceed 17 million tons—in terms of metal) announced its decision to reduce output from certain of its mines by 10 per cent—a step described by that group's spokesman as “its contribution towards equating the supply-and-demand position.” And, for so long as markets are potentially bottomless pits, it is mere prudence that producers should endeavour to safeguard themselves against precipitate price decline. But, if the proposed British Price Stabilizing Corporation had

been ready to function—with copper valorized by an application of the formula in A.8, the Rhodesian—and all other—producers instead of curtailing their output, could steadily increase production (thereby presumably reducing production costs) with a short-term confidence which must otherwise be lacking. The word “short-term” is used because there is ample evidence—notwithstanding that current world-output considerably exceeds current world-usage—that copper producers have faith in the future; because new development projects, at a capital cost of over £50 million, are now under way in both Rhodesia and Canada—and elsewhere. This long-term confidence is based on the belief that it will be only a matter of time before greatly improved living standards in all countries—especially in Asia and Africa—must lead to a quite unprecedented demand for copper by an ever-expanding electrical industry. The problem which confronts the producers is how best to tide over the intervening period—especially as, during this indefinite interim, the mining interests will be investing the immense sums referred to above not only in new and improved mine-developments but also in extensive refining and better transport facilities. In existing circumstances, to the extent that copper-usage lags behind output, either prices must fall, probably to unremunerative levels, or there must be frequent cuts in production—each inevitably causing under-employment of workers and of capital equipment.

D.11.—How P.S.C. COULD ASSIST COPPER PRODUCERS

It would seem beyond argument that a British Price Stabilizing Corporation could provide a complete solution to this problem, not only as it exists in 1957, but in the years that lie ahead. And because virgin copper is a wasting asset—only partly offset by scrap recovery—the carrying of large stocks under P.S.C. aegis could be regarded with com-

placency by the people of Britain—which has only negligible natural resources in copper-yielding ores. If the P.S.C. were functioning, there would be no necessity for the Rhodesian Selection Trust (or any other producers) to reduce their output by 10 per cent, or by any other percentage. Instead, this 10 per cent could continue to be mined, and if its being offered on the market seemed likely to cause a sharp price decline—in which respect *vide* E.7—it could be consigned direct to the P.S.C. either for sale for sterling at the low point, or for deposit (in R.S.T. ownership) in P.S.C. custody. If this copper were sold to P.S.C., it could not reach the market at below the HIGH point. And the sterling so acquired by R.S.T. would be additional to that derived from commercial sales; and it would be a valuable contribution towards the heavy capital outlay involved in the development projects already in hand and in prospect. If, as an alternative, this copper were lodged in P.S.C. custody (in R.S.T. ownership) it would be so firm a security for bank finance that particularly favourable terms might reasonably be expected; and money so received might be employed in the development projects. Prudently pursuing this alternative policy, R.S.T. could channel part of its reserves out of P.S.C. custody on to the market whenever it saw fit to do so, because, unlike the P.S.C., it could sell at its unfettered discretion (at any figure not above the HIGH point then operative).

Long-term contracts between R.S.T. (or other producers) and user-industries would be in no way affected by the functioning of the P.S.C.; nor would this affect agreements (if any) as between Commonwealth producers (or any of them) and American or other foreign producers—or consumers. Precisely the same facilities would be afforded by the P.S.C. to all nationals—without any discrimination as to source of consignments to it. But, as sterling is a currency in use by all Commonwealth countries—other than Canada—perhaps these would be more likely to have

recourse to the British P.S.C. than would some foreign countries' nationals. However, as is shown in Chapter VIII, once the United Kingdom had given a lead in establishing this system, it could reasonably be anticipated that other great trading nations would quickly follow that example.

D.12.—TIN

Tin was decontrolled on 1st November, 1949, and, in the two remaining months of that year, its maximum price at £725 per ton was higher than the minimum at £600 by 21 per cent. In succeeding years—up to the end of 1956—the percentage differences by which the maximum price exceeded the minimum in each year were: 124, 100, 9, 7, 28, 24 and 19. Over the whole period the highest price (and the highest ever recorded) was £1,615—which was 184 per cent above the minimum of £568 in 1953. In the interwar years, tin was up to an annual average of £291 in 1926, and down to an annual average of £118 per ton in 1931.

D.13.—THE INTERNATIONAL TIN AGREEMENTS

Between 1930 and 1937 there were three International Tin Agreements all designed to counteract severe oscillations in prices. The third of these—to which seven producing countries subscribed—was that of 1937-41 under which it was decided to establish a buffer stock of some 15,000 tons in an effort to keep prices between £200 and £230 per ton. Speaking as Chairman of the London Tin Corporation in July 1938, Captain Oliver Lyttelton, D.S.O., M.C. (now Viscount Chandos), made these comments:

“The theoretical case in favour of the buffer stock scheme is overwhelming. Nobody can suppose that it was good management to have allowed the violent fluctuations we have seen in tin prices. During the twenty-one market days from 12th February to 15th March, 1937, tin rose by £82 per ton from £229 to £311.

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Then, during the thirty-eight market days from 15th September to 8th November in the same year, prices fell by £83 from £264 to £181.... These are facts, not surmises; and they prove conclusively that a buffer stock of the size now contemplated would have been sufficient to arrest both movements."

A buffer stock of 15,500 tons was, in fact, established by July 1939; but the whole scheme was thrown out of gear by the incidence of war—which led to the Agreements being wound up.

On 1st March, 1954, a new International Tin Agreement came into potential effect; but it differed, as to its constituent Members, from its predecessors in that those which subscribed to it included the Governments of both tin-producing nations and *tin-importing* countries. The producing Members were Belgian Congo, Bolivia, Malaya, Nigeria, Indonesia and Thailand; and the importing Members included all the chief Western European nations, the United Kingdom, Canada, Australia, India and Japan. The Preamble to this Agreement and the objectives of the International Tin Council which it established are now quoted in full because—in general terms—these might be applied to copper and to a great many other basic products. That twenty-six nations are of one mind in desiring realistic stability in tin prices is an earnest of the wish, on all sides, for stability of prices over the widest possible range of essential commodities.

THE PREAMBLE

The Contracting Governments:

- (a) recognizing the exceptional importance of tin to numerous countries which are heavily dependent upon favourable and equitable conditions for its production consumption or trade;
- (b) finding reasons to expect that widespread unemployment or under-employment in the industries producing and consuming tin may develop out of special difficulties to which international trade in tin is subject, including a tendency towards persistent disequilibrium between production and consumption, the

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- accumulation of burdensome stocks and pronounced fluctuations in price;
- (c) considering that a burdensome surplus of tin is expected to develop and is likely to be aggravated by a sharp reduction in purchases of tin for non-commercial stocks;
- (d) believing that in the absence of international action this situation cannot be corrected by normal market forces in time to prevent widespread and undue hardship to workers and the premature abandonment of tin deposits;
- (e) and also recognizing the need to prevent the occurrence of shortages of tin to ensure an equitable distribution of supplies if a shortage should occur at any time during the period of this Agreement;

Have agreed as follows:

OBJECTIVES

The objectives of this Agreement are:

- (a) To prevent or alleviate widespread unemployment or underemployment and other serious difficulties which are likely to result from maladjustments between supply and demand for tin;
- (b) to prevent excessive fluctuations in the price of tin and to achieve a reasonable degree of stability of price on a basis which will secure long-term equilibrium between supply and demand;
- (c) to ensure adequate supplies of tin at reasonable prices at all times; and
- (d) to provide a framework for the consideration and development of measures to promote the progressively more economic production of tin while protecting tin deposits from unnecessary waste or premature abandonment.

D.14.—TIN BUFFER STOCK

The Agreement then went on to require that the *producing* countries which were parties to it should establish (on a quota basis) a buffer stock of which "not more than 75 per cent shall be in tin metal" and the balance in cash equivalent —to aggregate 25,000 tons (in cash and kind). Of this, the initial contributions should include 15,000 tons of tin metal to be due "on such date as the Council may decide." This

date was subsequently fixed as at 15th September, 1956. The purpose of this buffer stock was to enable initial floor and ceiling prices to be maintained at levels "which the Council, from time to time, consider appropriate to the attainment of its objectives." The initial floor and ceiling prices were set at "£640 sterling" and "£880 sterling" (respectively) per ton. In effect, this would mean that the "permitted" market fluctuations could extend to 37½ per cent above the level of the floor price—always assuming that the Council had at its disposal (a) the *cash reserves* essential to buy all tin offering, over and above market absorption, at £640 per ton; and (b) the *essential tin reserves* to meet all market demands over and above traders' ability to supply these at £880 per ton. The administration of this scheme was entrusted to a "Buffer Stock Manager"; and, in order to make clear some of the difficulties involved, Article IX of this Agreement is now quoted in full. However, the qualifying phrases which are italicized in what follows are not so printed in the *Agreement* as published.

MANAGEMENT AND OPERATION

- (1) The Manager shall be responsible for the operation of the buffer stock and in particular for buying, selling and maintaining stocks of tin in accordance with the provisions of this Article and of Article XI.
- (2) If the price of cash tin on the London Metal Exchange—
 - (a) is equal to or greater than the ceiling price, the Manager shall, if he has tin at his disposal—
 - (i) offer tin for sale on the London Metal Exchange at the ceiling price, until either the cash price on the London Metal Exchange falls below the ceiling price or the tin at his disposal is exhausted;
 - (ii) accept bids for tin at the ceiling price, adjusted for location and such other factors as may be determined by the Chairman, direct from consumers in participating countries or agents acting directly on their behalf, provided that the minimum tonnage of all such transactions shall be 5 tons and larger tonnages shall be in multiples of 5 tons;

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provided also that the Manager in accepting such direct bids shall have regard to the fair and equitable disposal of tin in the buffer stock;

- (b) is in the upper third of the range between the floor and ceiling prices, the Manager may offer tin for sale on the London Metal Exchange at the market price if he considers it necessary to prevent the market price from rising too steeply;
 - (c) is in the middle third of the range between the floor and ceiling prices, the Manager shall neither buy nor sell unless the Council by a distributed simple majority decides otherwise;
 - (d) is in the lower third of the range between the floor and ceiling prices, the Manager may buy cash tin on the London Metal Exchange at the market price if he considers it necessary to prevent the market price from falling too steeply;
 - (e) is equal to or less than the floor price, the Manager shall, if he has funds at his disposal, offer to buy cash tin on the London Metal Exchange at the floor price until either the cash price on the London Metal Exchange is above the floor price or the funds at his disposal are exhausted.
- (3) At any time when under the provisions of paragraph 2 of this Article the Manager may buy or sell cash tin on the London Metal Exchange, he may, within the framework of the general instructions he may have received,
- (a) buy or sell three-months tin on the London Metal Exchange;
 - (b) buy or sell either cash or forward tin on any other established market for tin.
- (4) Notwithstanding the provisions of this Article the Council may authorize the Manager, if his funds are inadequate to meet his operational expenses, to sell sufficient quantities of tin at the current market price to meet his current operational expenditure.

(Article XI referred to in (1) above deals with the liquidation of stocks at the termination of this Agreement and in no way alters the manner of buffer stock management during the Agreement's currency.)

D.15.—FUNDAMENTAL DIFFERENCE BETWEEN TIN SCHEME AND P.S.C. SYSTEM

The fundamental difference between the foregoing and the proposed functioning of the Price Stabilizing Corporation is that the International Tin Council seeks to ensure both

floor and ceiling prices to achieve which (a) it must have funds available to absorb all tin offered to it at the floor price; and (b) it must have tin stocks available to meet all demands made upon it for the supply of tin at the ceiling price. In contrast, the Price Stabilizing Corporation would guarantee only a floor price; but it would provide an absolutely firm assurance in that regard. Whether or not the P.S.C. could provide a ceiling would be conditional upon its having acquired reserves at its low point. But, if and when the P.S.C. ceiling became effective, market price movements would be limited to 22·2 per cent—instead of being permitted to extend to 37½ per cent which is the range between £640 and £880. So far as the International Tin Council is concerned, in order to be able to function successfully, it would need to be in as *relatively* strong a position (a) financially (in relation to its possible commitments as a tin buyer) and (b) in respect of its tin holdings (in relation to its possible commitments as a seller of tin) as was the Bank of England when it was maintaining both a floor price and a ceiling price for gold (*vide Chapter VIII, H.1*). The weaknesses of the International Tin Council in its functioning are shown in Article IX by such provisos “*if he* (the Manager) *has funds at his disposal*”; and “*if he has tin at his disposal*. ” Nevertheless, even with the limitations inherent in this scheme, it may well have a considerable stabilizing influence—always provided that it acquires substantial reserves both of tin and of cash.

D.16.—PRODUCERS DESIRE STABILITY—LONDON PRICES A CRITERION

Arising out of this Agreement there are two very significant factors which should be kept in mind when the Price Stabilizing system, as advocated in this book, is being considered. The first is that so anxious are the eight major tin-producing countries to have price stability that they have

accepted full responsibility for providing not only the whole of the tin buffer stock essential to maintaining a ceiling price, but also the whole of the buffer-cash reserves essential to maintain a floor price; or, at least, to *endeavour* to fulfil both these requirements. The only contribution to I.T.C. funds from the "importing members" is the relatively small sum required to meet administrative (managerial) expenses. *In striking contrast, under the P.S.C. system producers are not required to make any contribution whatsoever.* As is shown in Chapter VI (F.1) the P.S.C. would give them a constant premium-free insurance against precipitate price decline; and there would be no such qualification as "*if funds were available.*" The second significant point is that the Governments of the twenty-six nations that are parties to the International Tin Agreement have accepted tin prices on the London Metal Exchange as their guide in the administration of their whole enterprise.

D.17.—TIN SCHEME COMPLEX—THE P.S.C. SYSTEM SIMPLE

Without doubt the reader will have appreciated that, while the administration of the Tin Scheme is fraught with intricacies, uncertainties, and possible pitfalls, the proposed automatic functioning of the P.S.C. system is essentially simple, and devoid either of intricacies or of uncertainties (excepting as to whether production of any valorized product will be such that reserves will be established) or of pitfalls. In short, a complete picture of the potential functioning of the P.S.C. is contained in the suggested formula (in principle) in A.8 of Chapter I; and the only (conditional) qualification is that contained in B.21 of Chapter II. It is certainly not suggested that if, as may be hoped, the proposed P.S.C. system is to be inaugurated in the United Kingdom, there would be any interference with the Tin Scheme which,

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no doubt, would continue to operate. But it would seem likely that the P.S.C. would valorize tin as a matter of course; and, thereby, the administration of the Tin Scheme would then have firm background support which, otherwise, must be lacking.

D.18.—LEAD

Lead was decontrolled on 1st October, 1952, and in the remaining three months of that year its maximum price at £108 per ton was 35 per cent above its minimum at £80. In the succeeding years up to the end of 1956, the percentage differences by which the maximum price exceeded the minimum in each year were, 42, 39, 19 and 16. The highest price in that period at £126 in 1956 was some 70 per cent above the minimum, which was £74 in 1953.

D.19.—ZINC

This metal was decontrolled at the beginning of 1953 in which year its maximum price, at £96 per ton, was 52 per cent above its minimum at £63. In the succeeding three years, the percentage differences by which the maximum price exceeded the minimum in each year were: 23, 20 and 19. The highest price over those four years at £105 in 1956 was some 61 per cent above the minimum, which was £63 in 1953.

D.20.—COAL

While there are excellent reasons for valorizing coal, its production and initial marketing in the United Kingdom are exclusively the business of the National Coal Board which—in addition to being the sole price-arbiter—is wholly responsible for both the exporting and the importing

of this product—at its absolute discretion. Therefore, it is not at all likely that the P.S.C. would be concerned with coal. Nevertheless, at some stage, the P.S.C. might have built up, not only large reserves of many other basic commodities, but also substantial financial reserves arising out of its disposals, from time to time, at a premium of 22·2 per cent. And it is conceivable that—at some period in the future—output of coal in this country and in other reasonably adjacent countries may greatly exceed the then effective demand; and, in such circumstances, the National Coal Board might find it advantageous to seek the co-operation of the P.S.C. on some mutually acceptable basis. It may be mentioned, here, that there was considerable over-production of coal in Australia in 1957—a state of affairs that had seemed very unlikely in the early postwar years. Moreover, the accumulation of this product in the U.S.A. in the early 1950s was so great that the American Miners' Unions declared a compulsory holiday for sufficiently long as to result in those reserves being greatly reduced.

D.21.—PETROLEUM

There would not appear to be any physical or financial reason why crude petroleum should not be valorized, and, in view of the constantly-increasing dependence of industry (and of domestic users) on this fuel, it is clearly important that reserves should be maintained in Great Britain much beyond those held strategically plus commercially-owned holdings. Whatever the cost of storage may be, and whatever technical problems are involved, these are being met by the Oil Companies; and the P.S.C. should be able likewise to meet these. As was made clear in regard to copper—*vide D.11*—the interests of oil-producing companies could be very well served by their taking advantage of the facilities which the P.S.C. could provide.

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D.22.—IRON AND STEEL

It does not seem likely—at time of writing—that market prices for iron and steel will fall in the foreseeable future to any marked extent. But no one knows what the future may hold in store; and it would seem wise that the P.S.C. should stand ready to valorize both. So far as steel is concerned, it would appear that valorization should be restricted to such forms as blooms, bars and billets; but perhaps more advanced shapes like sheets, girders, and rails could be included. But no higher forms of fabrication should be valorized. In short, valorization should always be restricted to what are, in fact, raw materials for the fabricator.

Looking to the years ahead, there are some spectacular “new” sources of supply of iron ore soon to be exploited. In Canada what is known as the “Labrador Horseshoe” extends from near Fort St George in Quebec Province over a curve of some 700 miles into Labrador and back into Quebec in the Ungava region. Writing in the *Toronto Star* in June 1957, Harold Hilliard stated that, in part of Ungava through which the “Horseshoe” passes, ore is exposed in a wide belt that extends for over 100 miles “almost as though the mother-lode of the world’s ore supplies had been found.” It is estimated that, by 1967, about \$1,000 million will have been invested to exploit this and other deposits along the “Horseshoe.” Then, within twenty miles of Ottawa, attempts are being made to extract iron from a hundred-mile-long Northern beach flanking the St Lawrence River—the iron content of which is estimated to be 1,800 million tons. Newfoundland, also, has vast reserves.

On this side of the Atlantic, enormous deposits—not only of rich iron ore but of ores yielding copper, manganese, lead and zinc—have recently been proved in the French Sahara. One field, estimated to contain 400 million tons of iron, lies eighty miles south-east of the Morocco-Rio De Oro border and distant 350 miles from a seaport. According

to Geoffrey Myres, writing in the *Daily Telegraph* (London) in July 1957, the exploitation of this field—and of other rich deposits—is to commence in a big way before many years have elapsed. In other parts of Africa, too, there are vast reserves. The iron content of ores in South and South-West Africa is estimated at 5,000 million tons; while, in Southern Rhodesia reserves are believed to contain the astronomic total of 50,000 million tons. Though many decades may pass before these remote deposits are exploited, this is not the case in India where extensive developments are in progress for the exploitation of reserves estimated to contain over 10,000 million tons.

D.23.—SUGAR (UNREFINED)

Unrefined sugar can be bulk-stored in properly-constructed silos for long periods without appreciable deterioration; and it would, therefore, be physically suitable for valorization. Rather more than two-thirds of this product imported by the United Kingdom is supplied under the Commonwealth Sugar Agreement of December 1951—which extends to the end of 1964. Under this, the British Government is a purchaser of specified quotas from the sugar-producing British Colonies, from Australia, and from the Union of South Africa, at prices guaranteed to be reasonably remunerative; and these suppliers may sell, also, certain other specified tonnages in the United Kingdom in competition with imports from foreign sources—chiefly Cuba and the Dominican Republic. But, whereas the duty payable on (unrefined) sugar from foreign sources is £8 2s. 8d. per ton, that chargeable on sugar from Commonwealth and Empire countries is lower, by £3 14s. 8d., at £4 8s. per ton. In this connection, the c.i.f. cost of 1,534,000 tons obtained by Great Britain from Commonwealth and Empire suppliers was £47 13s. per ton; while 805,124 tons from foreign sources was £51 17s. cheaper (in bond) at £33 17s. per ton.

Commodity Supplies in General

In addition to the Commonwealth Sugar Agreement there are other special arrangements between certain of the principal producing and marketing nations—in particular the United States' quota arrangements with her suppliers including Cuba. These are designed to secure reasonably orderly marketing of the sugar entering international trade; but the surplus has to be sold at world market prices, which are often, but by no means always, much lower than those ensured under any of the special arrangements. The majority of this surplus world-market sugar is now sold within the framework of the International Sugar Agreement signed in 1953 but this Agreement has so far failed to stabilize sugar prices. The supply-and-demand position in recent years can best be illustrated by the c.i.f. (United Kingdom) prices for Cuban sugar—as set down in Appendix II. From these it will be seen that, in 1950, the maximum at 50s. 7d. per cwt. was higher than the minimum, at 36s. 2d., by some 40 per cent. In the succeeding years, the maximum exceeded the minimum (in each year) as follows: 60 per cent, 26 per cent, 20 per cent, 11 per cent, 9 per cent and 43 per cent.

In view of the fluctuations in those years, it might well prove to be in the long-term interests of both producers and consumers that sugar should be valorized (by an application of the formula in A.8) whereby there would be a firm underwriting, on a realistic basis, of producers' interests; and a conditional underwriting of consumers' interests—conditional because it could not be effective until (and then only for so long as) the P.S.C. held stocks. All P.S.C. stores for this dutiable product would, of course, be bonded. The valorization of this product would in no way interfere with the functioning of either the Commonwealth Sugar Agreement or the International Sugar Agreement.

It is not likely to be forgotten that, during and following both the first and second Great Wars, this highly essential food was in extremely short supply.

D.24.—COCOA (RAW)

This product was decontrolled at the beginning of 1951—during which year the maximum price (c.i.f. United Kingdom), at £320 per ton, exceeded the minimum, at £227, by £93—or nearly 41 per cent. In each of the immediately following years, the differences by which the maximum exceeded the minimum were as follows: 43 per cent, 49 per cent, 44 per cent, 50 per cent and 41 per cent. The highest price during those five years, at £540 in July 1954, was £370—217 per cent—above the lowest, at £170 in April 1956.

Most of the world's imports of cocoa are derived from West Africa—with exports exceeding 200,000 tons annually from Ghana (formerly the Gold Coast) and over 100,000 tons from Nigeria. Wide oscillations in prices are very disconcerting, not only to the growers, but also to the whole economies of these territories—especially to Ghana. And they are, of course, disconcerting, also, to user-industries. While the cocoa bean is likely to deteriorate if kept for long in store in the humid climate of West Africa, it can be held for years—without appreciable deterioration—in properly constructed stores in Great Britain.

As was mentioned in Chapter I, A.2., at least 33 per cent, by value, of the United Kingdom's imports in 1956 had the attributes essential for their conditional valorization under this system. In this connection attention is invited to Appendix I—page 169.

CHAPTER V

P.S.C. SYSTEM AND THE BALANCE OF PAYMENTS

Question 10: Would not the acquisition of reserves—possibly far beyond then current needs—add seriously to the United Kingdom's external balance of payments problem; because the accumulation of BLOCKS of imported products would mean that perhaps tens of millions of £s would, in effect, be disbursed to external holders (in addition to normal disbursements on commercial imports) and would not this cause the value of the £ to depreciate seriously in terms of other nations' currencies?

E.I.—THE FACTORS INVOLVED

The operation of the P.S.C. system *per se* could not have any such effects, because the factors which adversely influence our balance of payments would have had to become far less acute (than prior to the inauguration of this system) before it could begin to operate. But the whole matter of the balance of external payments is so involved that it is necessary to explain the basis of this reply at length and in fundamental terms. There is no other nation (unless it be Japan) so dependent upon overseas trade as is Great Britain; and there is much that is incomparable between the United Kingdom's external economic problems and those of other nations.

E.2.—THE BOON OF POTENTIAL SELF-SUFFICIENCY

If some vast cataclysm overwhelmed and destroyed the rest of the world but left the Americas intact, the peoples of that continent would sustain no more than some serious inconveniences—because they possess all the essential material natural resources and the capacity sanely to exploit or conserve these so as to ensure ever-improving living standards. That there would be no more markets for exports outside the Americas would be a matter of very small moment. For some years they would be short of cocoa and natural rubber (both indigenous to, and originally obtained by enterprising British planters from, South America) and of tin, until South American deposits were further exploited; and some of the few tea-drinkers would have to revert to coffee until suitable areas were planted with ~~tea~~. But, for the rest, they would have everything they needed—either in natural or synthetic form. And, in the last analyses, the same is more or less true of each of the other continents. But, if such a cataclysm left only Great Britain as a survivor, her people would be in a state of semi-starvation within a year.

E.3.—EXPORTS VITAL TO UNITED KINGDOM

The whole *essential* purpose of our export trade is to acquire credits in the currencies of the countries from which we must obtain the imports that are vital to us; and, unfortunately, we are not able to pick and choose our sources of supply of some of these. It would be unrealistic to suppose that the American people will ever begin to understand this state of affairs. Yet, as the result of the great part played by the British—fighting virtually alone for long periods—in two exhausting wars that were as much the concern of the U.S.A. as of ourselves, our external economy

(with its fundamentally different problems) is now hitched to that of America to a most embarrassing extent. A nation which is as self-sufficient as is the U.S.A. can gear its domestic economy at any price level it chooses to adopt. It can redistribute internal purchasing power, inflate or deflate its currency, and jump through all manner of economic hoops at will; because it has available within its territories virtually all the resources it needs. But the repercussions on any country which is obliged to buy essential products from such a nation are indeed unfortunate. And the sooner the United Kingdom is able to re-establish something of her old independently functioning external economy the better for the British people.

Every product that would be valorized by the P.S.C. would be a commodity absolutely essential to the United Kingdom; and so great is the variety of materials that could be valorized that—by reason of their convertibility—they could cover the full range of our essential needs; e.g. grains are convertible into every form of animal product, textile raw materials into all types of clothing, metals and other mineral substances into machinery and buildings; and so on. The lower the price the United Kingdom has to pay for such imports the less the amount of external currencies that has to be earned by the sale of our exports.

It is to be appreciated that to the extent to which the P.S.C. acquired reserves from overseas Great Britain would have obtained future requirements in essential commodities in advance of having had to export—with payments for these in sterling with which those who acquired this would be able to buy British goods reciprocally. Thus, to the extent that the P.S.C. obtained consignments from external sources, both payments for these and consequential reciprocal purchases by the consignors (directly or indirectly) would be in sterling.

E.4.—PRICE DECLINE A PREREQUISITE

The question under reply is necessarily based on the assumption that the P.S.C. did acquire—possibly very large—reserves. If it did not do so, it would not have been responsible for any disbursements of sterling—and the question could not arise. However, if the P.S.C. in fact built up imported reserves, the absolute prerequisite would have been that these had been paid for at a price always at least $2\frac{1}{4}$ per cent lower than the price at date of valorization (*vide* A.8); and, thereafter—so long as the P.S.C. held stocks of any product—its market price could never be higher than $3\frac{3}{4}$ per cent below that at date of valorization. This could only mean that the P.S.C.'s disbursements of sterling to sellers outside the United Kingdom would have been far more than offset by the much lower sums that had had to be dispersed by commercial importers—for the same amounts as usual of such imports. Nevertheless there could be a *temporary* and, perhaps, very serious strain on the balance of external payments if large consignments to P.S.C. out of burdensome surpluses (as of wheat, maize, cotton or tobacco) had to be paid for, in sterling, on delivery. But, as was made clear in C.21 of Chapter III, the P.S.C. would be safeguarded against any such strain; and, in fact, consignments to it out of surpluses—with payment deferred for three years as proposed in C.21—would have a demonstrably extremely advantageous effect on the balance of payments.

E.5.—EXPLANATION BY SIMPLE ARITHMETIC

The whole issue can best be expressed in simple arithmetic. Suppose that the United Kingdom's normal annual import of essential commodity "x" had been 80,000 tons at an average cost, prior to its valorization, of £100 per ton—or £8 million in a year. The application of the formula in

A.8 would result in "x" being valorized with an initial low point of £78 15s. per ton (i.e. with initial index at £87 10s. and the low point 10 per cent below index); so that there would be no disbursements by the P.S.C. unless and until the market price had fallen to £78 15s., at which level 80,000 tons of commercial imports would cost buyers only £6,300,000. Only if market offerings exceeded the volume which commercial buyers were prepared to purchase at £78 15s. would sales to P.S.C. have commenced. But suppose that, in the course of the then following few months, the P.S.C.'s purchases aggregated one BLOCK which (at one-eighth of an average annual import of 80,000 tons) would be 10,000 tons—for which it had paid £787,500. This, added to the £6,300,000 disbursed by commercial importers, would total only £7,087,500 in exchange for 90,000 tons of essential commodity "x" as compared with commercial buyers having had to pay £8 million (prior to valorization) for only 80,000 tons. Of course it would not have followed that the commercial buyers had, in fact, bought all their 80,000 tons at £78 15s. but, from the day the P.S.C. acquired its first unit (not BLOCK—*vide* B.4) of reserves (and so long as this was held) the market price could not again rise to above the then operative ~~HIGH~~ point of £96 5s. The probability, however, is that—in such circumstances—the average of market prices would be more or less close to the level of the index. But, if the P.S.C. acquired a BLOCK, there would, of course, be an immediate drop of 5 per cent in the index, to £83 2s. 6d., and it would remain at that level for so long as that BLOCK was in reserve—with then low point at £74 16s. 3d. and the then ~~HIGH~~ point at £91 8s. 9d. Thus, as long as the BLOCK was intact, the minimum saving in the costs of commercial imports (compared with £100 per ton) would be £8·11s. 3d. per ton—or £685,000 on a normal year's usage of 80,000 tons. And that would be assured as a minimum annual saving by the single investment in P.S.C. stocks (of commodity "x") of £787,500.

E.6.—RATIO OF SAVING CONSTANT

The ratio of minimum *sustained* reduction, *below pre-valorization levels*, in the costs of commercial imports (of all commodities of which the P.S.C. held reserves), to the amounts invested in such stocks would be constant—whatever was the size of the P.S.C. investment involved. So that, if the P.S.C.'s investments were 100 times greater than as given in the illustration in respect of commodity "x"; that is, if it held diverse reserves (and, the more diverse, the better) that had cost it £78,750,000, the *annual* reduction in commercial costs of imports (below pre-valorization levels) would be *at least* £68,500,000. Sales, from time to time, by the P.S.C. at its *HIGH point*—when some product was in short *market supply*—would, of course, all be at a profit of 22·2 per cent.

E.7.—THE MERITS OF RESERVES

"But" it may be asked "why should the United Kingdom have a system in readiness to retard reductions in the prices of essential basics? Why not allow these to continue without our having to go to the expense of putting floors in the markets and piling up reserves?"

There are four main reasons:

- (i) To a considerable extent the producers of the essential basics which would be valorized are—directly or indirectly—the customers on whom we rely to purchase our exports; and it is therefore in our own interests that their reciprocal buying power shall be maintained at reasonable levels. Otherwise there would be depression among these overseas producers, and that would quickly cause the volume and value of our exports to diminish—with resulting recession and

under-employment of men and of capital within the United Kingdom.

- (2) Very many overseas enterprises producing commodities that would be valorized (e.g. rubber and tin and copper) are financed by British investors with resultant income to shareholders in Great Britain; and the legitimate interests of these people should certainly be safeguarded against precipitate price decline.
- (3) The producers in some basic industries now have their own marketing organizations so well organized (and generally Government sponsored) that they can (and do) withhold from world markets—and from their home markets—large volumes of their products in order to maintain market prices at minimum levels which *they themselves determine*—though *at the cost to the taxpayer of the maintenance of surpluses*. As shown in Chapter III, this is especially true of wheat. These very effective organizations came into being solely as the result of those same producers' disastrous experiences during the inter-war years when markets for their products too often proved to be bottomless pits. But the pendulum has swung to the other extreme. In short, some groups of producers have established virtually unfettered control of market prices; and there is no sort of assurance that *other* groups of producers would not similarly combine if they saw serious depression in the offing—and none could blame them.

Price decline is a slippery slope. If and as soon as the volume of offerings in a market exceed, by even a few per cent, the volume required about that time by purchasers, prices fall out of all proportion to the cause. That is to say, a physical surplus (or even a presumed physical surplus) of perhaps 5 per cent

- during—say—one month, i.e. a surplus above the normal market absorption in that month, may cause a precipitate price decline of 15 per cent or, perhaps, of a much greater percentage. Even a powerful company in the user-industry concerned, with ample capital resources at its disposal to pay for its own reserves, is not usually in a hurry to buy in a falling market lest its competitors, by waiting longer, are able to purchase much more cheaply. In contrast, if the P.S.C. was known to be ready to buy at its low point, no user-buyer would be disposed to see all market offerings beyond current needs pass into P.S.C. ownership when, to purchase from the P.S.C. (at its ~~HIGH~~ point) would cost him a premium of 22½ per cent. Therefore, in the knowledge that market prices could not fall below the low point, user-buyers would almost certainly lay in their own substantial reserves—which they could deposit in P.S.C. custody where such stocks would provide gilt-edged securities for bank advances—*vide A.12*. And, in such a setting the small user-concern would be as advantageously placed as were its most powerful competitors—*vide B.19*. In such circumstances, the producers of basics, knowing that there was a floor in the market, would be much less likely to withhold any substantial part of their output from commercial offerings—than if there were no such safeguard of producers' interests.
- (4) Monetarily, the United Kingdom is part of the Sterling Area which embraces all Commonwealth countries (excepting Canada); and the Sterling Area's earnings in dollars and other foreign currencies result largely from disposals (for those currencies) of basics that would be valorized. Therefore, though the United Kingdom naturally wishes to buy such products cheaply, it would be most unfortunate for

the Sterling Area as a whole (and for Great Britain as its chief member) if prices were permitted to fall to levels that would seriously diminish the dollar earnings of the Sterling Area as a whole.

Taking these four factors into account, it will perhaps be agreed (*a*) that while it would certainly be advantageous, to the United Kingdom in particular, to be able to buy basic commodities more cheaply and at more stable prices than in recent years, there should be some system of automatic braking, dictated by common prudence, on any serious price decline that may be in prospect; and (*b*) that, given an assurance that such a system of automatic braking was ready to operate, a *reasonable* measure of price decline to realistic—instead of artificially-sustained—levels would be more likely (in respect of very many important commodities) than otherwise.

E.8.—EFFECTS OF EXTERNAL STERLING DEPRECIATION

It would have been easier to answer the question at the head of this Chapter if sterling were freely convertible, when the short reply would have been as follows. To the extent that the P.S.C. had been responsible for heavy disbursements of sterling to sellers outside the United Kingdom, Great Britain would be particularly well stocked with the essential commodities on which its economy is based; and if, as a result of those particular external disbursements, the £ went to a slight discount, this would mean that British exports would be proportionately cheaper in terms of foreign currencies. And that would be a valuable stimulus to our export trade which could then be expected to increase (with the *internal* value of the £ as stable as prior to its external depreciation); and, thereby, the surplus external holdings of £s would flow back to Great Britain with consequential re-appreciation in their external value.

Of course, during the period in which the £ remained at any discount, *all* the United Kingdom's imports would be correspondingly more expensive. But that would not be a matter for serious concern so long as Britain was well stocked with reserves of those products which are vital to her economy. In this connection it may be mentioned that for the past fifteen years the Australian Government has deliberately kept the Australian £ at a 20 per cent discount, in terms of sterling, with the sole purpose of stimulating exports of Australian products to the United Kingdom (and other sterling areas) and of restricting imports from the United Kingdom (and other sterling areas). In effect this means that, while the Australian exporter obtains 25 Australian shillings for every British £ he receives, the Australian importer can buy only 16 British shillings' worth of goods with one Australian £.

E.9.—PREREQUISITE FOR FREE CONVERTIBILITY

Much as H.M. Government would like to be able to "free the £", it is still considered necessary that controls shall be exercised to ensure that the official rate of exchange shall be kept rigid—especially in terms of dollars; because if the external value of the £ depreciated, we should have to pay more for those already very expensive imports which are essential. However, if the prices of these essential imports declined, our *essential* external payments would be lessened; but—unless the P.S.C. system were operating—there would be no assurance that such prices would not subsequently again rise—perhaps to even higher than earlier maximum levels—when the sterling value of our external disbursements would have to increase in proportion. But, if—when prices had declined to a pre-notified extent—reserves were automatically built up under the P.S.C. system, the United Kingdom would be safeguarded against any recurrence of high prices (for products then held in

reserve); and the most important segment of our external payments—i.e. for essentials—would correspondingly be prevented from rising beyond a known level. Therefore, it would seem that the first and effective step towards free convertibility must be the establishment of large reserves of the widest possible range of essential commodities.

Hitherto, in order to have a balancing factor available, H.M. Government has maintained as large reserves as possible of gold and dollars, and of other foreign currencies—*vide* a description of the functioning of the Exchange Equalization Fund on pages 23 and 24. But neither gold nor dollars, nor any other currency, has any constancy in purchasing power—which varies from day to day—and from hour to hour—in terms of products. Therefore, it would seem common prudence to hold large reserves of essential commodities—in addition to such reserves of gold, dollars and other foreign currencies as we could secure and maintain. We should then have to dip into these financial reserves only if and when the terms of our external trade had been persistently in our disfavour for a long period. And, if the necessity again arose (as it has so often done in the past) for arbitrary official measures to reduce imports, our principal manufacturing industries would be in no way disturbed—so long as reserves of the raw materials they use were available under P.S.C. auspices. If all this be thought through, it will be seen that the larger and more diversified our commodity reserves under this system, the less would be the likelihood of the terms of our external trade being in our disfavour.

E.10.—BRITISH INDUSTRIAL COMPETITIVE POWER

Overall, however, the effective functioning of this system would produce the most satisfactory results only if Britain's export industries played their parts with maximum efficiency—so as to take full advantage of the fact that every

acquisition of an imported product by the P.S.C. would place purchasing power in the hands of external holders over and above that which they had obtained from commercial importers. Thus, if the P.S.C. disbursed £50 million over a twelvemonth, this would provide £50 million worth of additional potential external markets. Whether or not that money was spent in the United Kingdom would depend on the price-quality value of the goods (and services) we then stood ready to export. But British industries would then be in a potentially much stronger position than for very many years because: (a) in proportion to the extent and range of P.S.C. holdings of valorized products, they would be assured of continuity of supply of raw materials at stable but realistic prices; (b) in proportion to the extent of P.S.C. holdings of basic foodstuffs—chiefly of grain—and of raw materials for consumer-goods, the real cost of living would have been realistically stabilized—probably at a substantially lower level than at date of the inauguration of this system—*vide* last paragraph of B.18, and (c) the wage—and income—structure could then have been stabilized on the basis of productivity (i.e. with rates of incomes truly related to production).

E.11.—ENGENDERING GOODWILL

Though it is proverbial that there is no sentiment in business, it may not be unrealistic to suggest that overseas producers would have a real appreciation of the fact that the United Kingdom was the first nation to provide a firm floor in its markets for their basic products—without discrimination as to source of supply. This would inevitably engender a measure of confidence that had not previously been warranted; and the people in whom such confidence had been inspired would be those who had acquired additional reciprocal purchasing power, in proportion to their sales to the P.S.C. It might then be not too much to

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expect that British export industries would have their real goodwill—of which it would be for those exporting industries to take full and proper advantage.

E.12.—MULTI-NATIONAL ADOPTION OF SYSTEM?*

Of course, if other countries also adopted this system, it could operate to their (more or less) equal advantage; so that Britain's export industries would have to be keenly competitive; but that would be nothing new. Operating in such a setting, British skill, capacity for good work, ingenuity and enterprise could be relied upon to secure its proper share of the ever-expanding world trade that could be expected to follow in the train of the multi-national adoption of this system. And to the extent that there was world abundance, this would "place at the disposal of all the men of all the lands access on equal terms to the trade and to the raw materials of the world which are needed for their economic advantage"—to quote from the once much-vaunted, but now more or less forgotten, Atlantic Charter.

CHAPTER VI

ADVANTAGES TO PRODUCERS OVERSEAS

Question 11: What would be the attitude of countries of the overseas Commonwealth towards this system? Would they not use every political endeavour towards ensuring that it was so geared as to be of special advantage to them—always bearing in mind their importance as markets for British exports?

F.I.—PREMIUM-FREE INSURANCE

When the purpose and functioning of this system was fully understood by Governments in the overseas Commonwealth, there would be every reason for their welcoming its inauguration. To the extent that such countries export commodities that would be valorized, they could not but appreciate the fact that a floor had been placed in the market for each such product—whose producers would be provided with a form of very desirable insurance for which they did not have to pay any premium. If the British P.S.C. was the only one ready to function, it would be British investors—backed by H.M. Government—who stood ready to provide this insurance; and if this involved the P.S.C. in investment (in the taking in of reserves) there could be no possible grounds on which to suggest that the British people should not reap the reasonable advantage of future stable prices—possibly on a *gradually* descending scale; but, thereafter, equally possibly, on a *gradually* ascending scale.

Advantages to Producers Overseas

F.2.—TARIFFS AND PREFERENCES UNAFFECTED

It is essential to keep in mind the fact that the functioning of this system within Great Britain would have no effect on (nor could it be affected by) the operation of tariffs with—or without—preferences; because the P.S.C.'s reception depôts for all valorized dutiable goods would be *bonded* stores; and British buyers from these would, of course, have to pay the appropriate duty. As to Governments in the overseas Commonwealth using every political endeavour to try to ensure that the British P.S.C.'s *points* were so geared as to be of special advantage to them, there would literally be no scope for this—because the formula (in A.8) on which the initial index and *points* were to be based would be entirely automatic in its application. Such pressure as any overseas Commonwealth country wished to bring to bear on H.M. Government would always be in the form of requests for tariff preferences—a matter to be dealt with entirely on its merits and *on which the P.S.C. system could have no bearing whatsoever.*

F.3.—FACILITATING ENTREPÔT TRADE

It will be appreciated that the holding of reserves in *bond*—and in free stores—if such reserves were held in custody for commercial owners, would greatly facilitate an expansion of entrepôt trading by British mercantile interests whose past experience in this field is unique. Great Britain is ideally situated geographically and on account of her oversea commercial and financial ramifications for this sort of trading to prosper—to the advantage of both oversea producers and of British mercantile, shipping and insurance interests.

F.4.—LONG-TERM BALANCED PRODUCTION

In due course, the measure of the reserves of the various products held by the P.S.C. would provide the best possible

guide as to future productive enterprise overseas, which (seasonal factors apart) could gradually then be brought into balance. To continue maximum production of a commodity manifestly in great excess supply and therefore either very low-priced or withheld in substantial part from markets (thereby creating a burdensome surplus) is economically absurd. And for a country capable of producing goods that are manifestly in short supply (and therefore high-priced) to neglect to produce such goods (if the essential capital and labour is available) is almost equally absurd. Under this system when in effective operation—and without any sort of control or coercion—an appropriate amount of capital and enterprise would be diverted from the production of goods clearly in excess supply to the production of goods in short supply—solely at the volition of the producers themselves, which is as it should be in a free society.

STIMULUS TO OVERSEAS INVESTMENTS

Question 12: How do the merits claimed for this system—involving as it might do the investment of immense sums in reserves of commodities—compare with the merits of investments in overseas development (especially in the Commonwealth) which of themselves would do much towards ensuring continuity of supply of such products as would be valorized?

F.5.—LOSSES IN THE PAST

It was estimated by the late Lord Kindersley, in 1933, that anything up to 60 per cent of £10,000 million worth of British investment in foreign countries had been irretrievably

lost in the (then) past—owing to wars, revolutions and outright repudiations. Nevertheless, in 1939, the nominal value of British external holdings was still about £4,000 million. Of these, some £2,500 million were within the Commonwealth (in which there has never been any repudiation of public debts) and the balance in foreign countries—with about £350 million in South America. But, so great was the external pressure on Britain's economy during and following the war years that all these overseas credits were either used to buy (usually on most unfavourable terms) goods for which she was then unable to export in payment, or they were counterbalanced by the overseas debts the United Kingdom had then to incur.

F.6.—INTEREST PAYMENTS

The boon to Great Britain of external investments was that the interest on these had to be paid—for the most part—in goods for which the British people did not have to export reciprocally. However, this was not always an unmixed blessing; e.g. if there was unemployment within Britain of people who could otherwise have been engaged either (*a*) in producing at reasonable prices (some of) the goods sent to the United Kingdom by debtor countries for sale to acquire sterling with which to pay interest or, (*b*) in manufacturing the exports that would have been essential if the goods sent to Britain had had to be requited by visible exports. However, the balance of advantage was generally greatly in Britain's favour; and most certainly so to the extent that the commodities so acquired were complementary to her economy rather than competitive; and to the extent, also, that they were re-exportable on favourable terms. In a period of full employment, of course, the fruits from overseas investment would be wholly advantageous to the nation as a whole.

F:7—DIFFICULTIES CONFRONTING DEBTOR COUNTRIES

Thus far, only the British point of view, and only interest payments have been considered. The subject must be examined, also, from the debtors' angle. In the past, the absorbing power—for *usage or re-export*—in the British market of goods sent there even as payment of interest was often insufficient to keep prices at levels remunerative to the consignors; whereas, if they sent—in addition—goods for sale to raise sterling with which to pay off their capital debts on due-dates, market prices were often forced still lower—until a stage was reached when the more they sent to Great Britain the less they received in payment. Moreover, the greater the volume of their consignments, if sold at steeply declining prices, the greater was the proportion of their gross receipts which had to be paid as freight and insurance. All this sometimes made it extremely difficult to keep up even interest payments—and often virtually impossible substantially to reduce a capital debt, much less to redeem it in full.

If the commodities sent to British markets caused unemployment of capital and manpower in British agriculture, the farmers vigorously protested and demanded subsidies and/or protective tariffs—which they secured. If the goods sent were competitive manufactures, the industrialists complained; and they, too, got protective tariffs. And the higher the tariffs, the more difficult it became for overseas debtors to honour their obligations. In desperation, Australia and New Zealand—whose debts in Britain aggregated over £800 million prior to 1939—imposed quotas on their exports of basic commodities, thereby arbitrarily restricting the volumes of their consignments to the United Kingdom, in their efforts to keep prices in British markets at remunerative levels—but with little if any success. Moreover, in response to their demands (not unreasonable in such circumstances) the rates of interest

they had originally contracted to pay were substantially reduced. And that was within the Commonwealth—and despite Imperial Preferences on all dutiable products. So far as certain foreign countries were concerned, there seems little doubt that similar difficulties (enhanced to the extent that competing Commonwealth countries enjoyed Imperial Preferences) were sometimes contributory factors to debt repudiation.

F.8.—P.S.C. SYSTEM COMPLEMENTARY TO OVERSEAS INVESTMENT

These were problems that are apt to be overlooked in a period of near-full employment, of (relatively) short supply and of high prices. But it is essential to have them in mind and to devise means of ensuring—as far as possible—that they do not recur following a renewal of that expansion of overseas investments, especially in the Commonwealth, which is so manifestly desirable, both economically and politically; from the viewpoint not only of Great Britain but of the territories awaiting capital for the development of their latent resources—within and outside the Commonwealth. It is in these respects that the operation of the P.S.C. system could do much towards safeguarding the interests of all concerned—at least in respect of overseas investments resulting in the production of commodities that could be valorized in the United Kingdom. Because, in the event of any such products being sent into British markets in volumes exceeding (then) market absorption at remunerative levels, prices could not fall precipitately below the relevant P.S.C. low points. And, thereby, the surpluses which would otherwise have caused serious depression would be taken into reserve in exchange for sterling to be used (a) to pay interest on the oversea investment; (b) gradually to amortize these debts; and (c) to pay for increased reciprocal exports from Great Britain.

F.9.—EFFECTS ON NON-VALORIZABLE PRODUCTION

Under such auspices investing overseas—especially in the production of any of the wide range of commodities that could be valorized—would be a far more satisfactory short-term and long-term enterprise than it was at any time prior to 1939. Of course, a very large proportion of the merchandise sent to Great Britain from debtor countries would not be the sorts that could be valorized. Much of such produce would be in the form of meats, dairy products, fruits and other perishables which could be brought within this system's range only in expensively preserved form. But, if and when the prices of the more important valorized goods were maintained at mutually satisfactory and realistically stable levels, there would not be much likelihood of prices of non-valorizable commodities dropping to "depression" levels. It might be thought that the fact that some product *was* valorized would lead to its over-production; that producers would be likely to concentrate on valorized production so as to "play for safety." But that would be out of tune with ordinary business acumen.

In the days of the gold-rushes in North America, Australia and elsewhere, perhaps the great majority of those who made and retained their fortunes were not the men who found the gold, but rather the people who catered for their needs—whether these were in the form of food and drink, clothing, transport, tools and heavy equipment—or dancing partners! And, in the same logic, under the successful operation of the P.S.C. system, the fact that there was continuity of purchasing power among all producers of valorized products would stimulate production in all non-valorized fields of enterprise. With every *increase* in the purchasing power of producers of valorized commodities (resulting from sales to the P.S.C.) their effective demand for increased supplies of manufactures would increase the usage of valorized goods; in short, they would "take

in each other's washing" via manufacturing industry whose turnover would correspondingly increase; and the likelihood of immense reserves piling up in P.S.C. ownership would correspondingly diminish.

Question 12: Would not the absorbing of such moneys by the sale of Valorizing Bonds, to the extent that the P.S.C. required funds to buy stocks on delivery, correspondingly reduce the amount of money available for investment overseas?

F.10.—MONEY FOR OVERSEAS INVESTMENT

The money withdrawn from circulation by the sale of Stabilizing Bonds would quickly pass back into circulation in payment for the goods taken into reserve. At the outset, it would pass to the producers of such goods; and, to simplify the answer to this question, it is only necessary to point out that these first recipients could at once invest the whole of their proceeds from such sales in overseas development projects. That this would not be likely to occur does not affect the principle. Actually, the first recipients would probably either spend their receipts on British goods and services, or they would sell their sterling for some other currency—when the buyers of that sterling (though it might frequently change hands) would ultimately use it to purchase British goods or services. The net result would be that whatever sums had been temporarily withdrawn from circulation by the disposal of Bonds, the amount of sterling in circulation would not be appreciably affected thereby; and as much would be available for investment overseas as if there had been no interpolations of Stabilizing Bond issues by the P.S.C.—less only sterling temporarily held externally.

CHAPTER VII

POSSIBLE EFFECTS ON BRITISH FARMERS

Question 13: How would the British farmer fare under this system? If it resulted in (say) wheat becoming available in the United Kingdom at prices with which he could not possibly compete, would not this lead either to his ruin or to the subsidies paid to him being heavier than at any stage hitherto?

G.1.—A BOON TO STOCK-RAISERS

For all practical purposes the position of the home farmer—as an *agriculturalist*—would be unaffected by the functioning of this system; but, to the degree to which he was concerned with dairy-farming or stock-raising in any form, his position would improve to the extent that the operating of the P.S.C. led to a lowering of the costs of his feeding-stuffs. It would seem that, of the many products that result from his enterprise, probably only wheat, barley, Beet-sugar and wool would be valorized. Notwithstanding the high productivity of Britain's soil and the skill and enterprise of her farmers—with “markets at their doors”—the policy of H.M. Government, irrespective of party, is not to expect British farm products to compete on even terms with kindred imports—and this is particularly true of wheat. Though there are still many people who may disagree with what has been irreverently called the feather-bedding of British agriculture, they are very much in the minority.

G.2.—WARTIME SHORTAGES

The nation's experiences of food shortages during two world wars were such that the great majority believe that this industry must be enabled to operate on a really profitable basis—even though at great expense to the taxpayer. So it is that, for example, the fostering of large-scale wheat-growing in this country is a political matter with which the P.S.C.—as such—would be in no way concerned; just as it would be in no way concerned with (nor be hampered by) tariffs. Nevertheless, if—in due course—the P.S.C. had established large reserves of imported wheat (and of other grains), what might be termed “wheat politics”—with special regard to strategic considerations—would be greatly simplified. Not that the P.S.C.’s wheat (or other) stocks would be strategic reserves in the accepted sense; because it is indispensable to the automatic working of this system that these should always be available—at the then *HIGH point*—to the first-comer who proffered sterling in payment, whatever his nationality. But, in the event of any tense international situation developing or being in prospect, it could safely be anticipated that the Ministry of Supply (or other appropriate Department) would be the first-comer. That Ministry could purchase any part—or the whole—of the P.S.C.’s stocks (*in situ*) at the level of the *HIGH point*, together with silos or other stores at cost, just as quickly as the order could be placed; and, in ultimate financial effect, little more than a book-entry would be involved because all such stocks would already have been paid for (*at the low point*) by a Government-sponsored body. And, with any subsequent relaxation of tension that would justify the Government in reducing its *strategic* holdings, any part of these could be sold back to the P.S.C. with payment at its *low point*. That this would—in turn—show a nominal loss would likewise be no more than a book-entry

between the Government Department concerned and a Government-sponsored body.

G.3.—THE COST OF HOME-GROWN WHEAT SUBSIDIES

As wheat is basically the most important foodstuff, it may not be out of place, here, to discuss briefly the whole matter of its supply in the United Kingdom, where the annual requirements for all purposes in recent years have amounted to nearly 7 million tons—of which, in the twelve months ending June 1955, upwards of $2\frac{1}{2}$ million tons were home-grown. In that year the nation's wheat bill was some £200 million, of which £125 million (62½ per cent) was for imports, and £75 million (37½ per cent) for home-grown. Home-grown wheat meets about 30 per cent of total requirements for *all purposes*; while that used for bread caters for some 25 per cent of home needs. The grower is guaranteed a minimum price for all his grain if of good quality—and irrespective of grade. This is known as the *standard price* and it is fixed annually—eighteen months in advance—by the Minister of Agriculture after consultation with the National Farmers Unions of England and Wales, Scotland and Northern Ireland. This standard price, which varies to a pre-notified extent throughout the year, is designed to ensure that (with average yields and production costs) the efficient wheat farmer shall receive a profitable gross return. In the year referred to above this averaged about £30 per ton—which was £2 10s. per ton above the average cost of imports in that period. In practice, the farmer sells his wheat in the open market for what it will fetch, and the Government makes what are known as deficiency payments to bring the grower's receipts up to the level of the standard price ruling at the time his wheat was sold. From 1st July (1954) to the end of September, this was £28 16s. 8d.; throughout October and November it was £30 6s. 8d.; from 1st December till the end of February

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(1955) £31 16s. 8d.; during March and April £33 1s. 8d.; and in May and June £33 16s. 8d. These increases were designed to encourage growers to market their grain in stages throughout the year—rather than that markets should be flooded soon after harvest.

G.4.—BRITISH WHEAT OF LOW MARKET VALUE

During those twelve months, market prices for home-grown wheat ranged from £19 13s. 4d. per ton to £23 10s.—with an apparent average of £21 6s. This should be compared with the prices of the principal imported wheats which, in the average, were as follows (all c.i.f.): Canadian, £29 7s. 6d.; Australian, £26 13s. 6d.; American, £25 10s.; and French, £23 9s.—with an overall average, from all sources, of £27 10s. Therefore, in the estimation of British buyers, home-grown wheat was deemed to be the lowest grade and/or quality offering. Its (apparent) average price (at £21 6s.) was £8 1s. 6d. per ton below that paid for the best types (from Canada) and £2 3s. below the cost of that obtained from France—which was the cheapest of all imported wheats in that year. The result was that the deficiency payments to British growers totalled £24,200,000—or some £10 per ton—in that period; this notwithstanding the fact that the home-grower has a substantial “natural” protection against the producers overseas to the extent of the shipping and insurance costs involved.

G.5.—DECLINE IN HOME-SOWN ACREAGE

It might be thought that, with such substantial encouragement, British farmers would find wheat-growing an attractive enterprise; but, in the event, the area sown to this grain in 1955/56 declined by about 20 per cent—from 2,457,000 to 1,948,000 acres. And the only conclusion to be drawn is that many farmers found other enterprises to be more

profitable. However, in that year, market prices (for home-grown wheat) were much higher—at from just under £20 up to £26 11s. with an apparent average of £23 6s. per ton; and this, coupled with the lower gross output, resulted in deficiency payments—at £17,300,000—being lower than in the preceding year by £6,900,000. Though the sowings in the 1956/57 season rose to 2,293,000 acres—over 17 per cent above those in the previous year—they were still 7 per cent below the 1954/55 acreages planted to this grain.

While the yield per acre in Great Britain is probably the highest in the world, the harvesting of wheat is always something of a hazard. Too often, continuous rains in the late summer so hamper harvesting that a large part of the yield may be lost; while that which is garnered (of which much may have to be artificially dried) may be greatly below average quality. Overall, it would seem that there are some British farmers who—standard guaranteed prices notwithstanding—are not at all enthusiastic about wheat-growing, excepting as a part of the traditional crop-rotation system. And these might welcome a relaxation of pressure upon them to produce this grain in a large way; especially if, at the same time, they could be assured of continuity of supply of imported grains—and pulses, residues from oil-seeds, etc.—for animal feeding-stuffs, at much lower prices than they had been paying in preceding years—and with the new prices stabilized within narrow limits of possible market fluctuations.

It is to be kept in mind that improved living standards in Great Britain do not lead to any increase in direct human consumption of wheat (as flour). In fact, improved living standards tend to reduce the amount of flour consumed, and to increase the consumption of animal products, of certain vegetables and of fruits. Therefore, given ample supplies of relatively cheap imported grain, the British farmer would have many alternative and more profitable fields for his enterprise than wheat-growing.

G.6.—STRATEGIC CONSIDERATIONS—AND NATIONAL ECONOMY

Regarded in the cold light of simple arithmetic, the cost of $2\frac{1}{2}$ million tons of home-grown wheat (at £30 per ton) was some £16 million more than the cost to the nation of the same volume (of similar grade-and-quality wheat) if it had been imported at the price paid for that from France; and there are immense quantities of that grade of wheat available overseas. While *there is much more to this than simple arithmetic*, it is as well to have the foregoing in mind in considering the adoption of a prudent middle course of action. Important and all as are strategic considerations, a second factor making for the encouragement of wheat production in the United Kingdom is the saving in dollar expenditure which results. But, if the reader has studied Chapter III, it will have been made clear that, if and to the extent that the U.S.A. and/or Canada consigned wheat out of surplus to a British P.S.C., there would inevitably be an overall reduction in dollar disbursements on imports of this grain. This was fully explained in C.19—read in conjunction with Schedules I and II on pages 81 and 85.

By and large, if and so long as the people of Britain were assured of ample supplies in the foreseeable future of very much cheaper (and generally better) wheat from overseas, it would be just not good *economy* for this grain to continue to be cultivated in a *large way* in the United Kingdom. It would seem that the best way to ensure continuity of supply would be to establish reserves on such a basis that the larger such stocks the cheaper the market price for imported wheats, and the less the difficulty in earning overseas currencies with which to pay for these.

For obvious reasons neither the volume of strategic reserves held by the Government nor the prices paid for these can be disclosed. The volumes must be presumed to be considerable—especially of wheat; but it must be

presumed, also, that the prices paid for these have been those in effect in markets at times of purchase. That is to say, when making purchases (by its agents) the Government has entered the market as a competitor against commercial buyers; and its activities, as such, would be quite incomparable with those of the P.S.C. whose functions and methods would be fundamentally different. However, let us suppose that—in the light of what appears in Chapter III—the P.S.C., in the course of two or three years, built up wheat reserves (all bought on increasingly favourable terms) of (say) 3 million tons of wheat—with payment deferred for three years after delivery of each consignment (*vide C.20*); and that, as a result, the average commercial price for imported wheat fell from (say) £27 10s. per ton to £22—see Schedule I (page 81), column 9, fifth line. That this (or something approaching it) would not be altogether unlikely has been shown in Chapter III—especially in C.9 to C.14. From the strategic angle, it would certainly appear that, in such circumstances (with P.S.C. stocks which could be taken into strategic reserve at an instant's notice), the nation would be no less secure if annual home production had then been gradually reduced by (say) 1 million tons. In fact, assuming that the volume in *strategic* reserve had not been diminished, the nation would be in a very much stronger position than if, with no P.S.C. stocks, home production had continued at $2\frac{1}{2}$ million tons annually. Moreover, if the necessity arose, home production could quickly be stepped up from $1\frac{1}{2}$ million to $2\frac{1}{2}$ million tons or more annually, by bringing back into cultivation all the land which had formerly been devoted to wheat; always provided that the necessary implements and fertilizers were readily available to growers.

It would certainly be strategically essential that all such equipment as tractors, cultivating implements, combines, grain dryers and the like should constantly be maintained in good working order; and any farmer who—if his wheat

acreage were reduced with Government approval—could not use such plant to capacity should be adequately compensated. To this end, the Ministry of Agriculture could stand ready to buy any such equipment and to hold and maintain it in depôts from which it could be taken out on hire by farmers. Though this (along with the maintenance of ample supplies of fertilizers) could involve quite heavy outlay, it would be much more “profitable” in the long term when compared with the cost of subsidizing home production of wheat on what would be an unnecessarily large scale—if there were a P.S.C. holding large stocks.

G.7.—FUNDAMENTAL IMPORTANCE OF WHEAT PRICES.

That more space has been devoted in this book to wheat than to any other product is because the *supply* of this grain is vital, and because its *price* is the most important factor in our national economy. The old adage “When wheat is a dollar, all’s well in the world” is as (relatively) true today as when voiced by Abraham Lincoln. Its *cost* of production, in terms of the expenditure in human energy, is in fact so much less nowadays that, even now, in bountiful seasons, a dollar a bushel *net* on a Canadian farm might be a profitable price—that is if the costs of the growers’ reciprocal requirements were correspondingly lower than at present. Wheat is the principal item of food among all European peoples. Its price affects not only the cost of bread and of all other flour-stuffs, but of all concentrated animal feeding-stuffs for livestock. Expensive wheat means expensive pig-meats, poultry products, dairy products and beef. And the price of those goods represent by far the greater part of the essential household food bill. The conversion factors, by weight, of grain into all such animal-products are well known; and it is therefore a simple matter to assess the extent to which costs of producing animal-products can be reduced with every (sustained) reduction in the prices of

wheat and of other grains—as well as of pulse and of residuals from nuts and seeds from which oils have been extracted—which are usually closely related to wheat prices.

G.8.—EFFECTS ON COSTS OF LIVING

As was mentioned earlier—*vide* B.18—the price of food is the most important element in the cost of living, which, in turn, is the factor on which *minimum* wages must be based if real hardship is to be avoided. With rising living-costs, demands for wage increases are virtually uncontestable; but to the extent that these are given (unless matched by increased production) the cost of living rises still higher, so that, while the obtaining of bigger wage-packets is of passing advantage to those who secure these, the whole of the rest of the community is penalized; and the particular sufferers are those on low fixed incomes—especially pensioners. In contrast, if the cost-of-living curve can be turned downward, everyone benefits from his increased purchasing power—for necessities. There does not appear to be any doubt that the operations of the P.S.C. system could result in substantial and sustained reductions in wheat prices; but whether or not it would do so—as has already been made very clear—is an open question. The overriding consideration appears to be that reduced prices—especially for wheat—would seem more likely under P.S.C. auspices than otherwise.

G.9.—BARLEY, BEET-SUGAR AND WOOL

What has been said in regard to home-grown wheat would be applicable, in a general way, to barley, to beet-sugar and to wool—home productions of all of which are subsidized by the Government; though wool is largely a by-product of the mutton-and-lamb producing industry. If

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these three products were valorized by the P.S.C., it might so happen that part of the output from home-farming would be sold to the P.S.C.—but only if *market* prices fell to the level of the P.S.C.'s low *point*—in each case. However, there does not appear to be any doubt that the Government will continue to ensure that producers shall continue to be guaranteed minimum prices. The only advantage of sales to the P.S.C. would be that the Government's deficiency payments would then be less than these might have been if there had been no bottom in the market.

CHAPTER VIII

MULTI-NATIONAL ADOPTION OF THIS SYSTEM

Question 14: Why is it said that the international inauguration of this system appears to be impracticable? But, if this be correct, would it not be essential that several large trading nations should agree to adopt this system at the same time; and is it thought likely that it would prove possible to secure agreement: *first*, as to the products which would be valorized; *second*, as to the levels in different currencies of the initial indices and *points*; and, *third*, as to the sizes of *BLOCKS*? However, assuming that several nations did agree on these controversial issues, what assurance is there that all such nations would keep within the letter (or even within the spirit) of their agreement?

H.I.—THE GOLD STANDARD WAS MULTI-NATIONALLY INAUGURATED

It is essential to read the whole of this chapter to find replies to the set of questions posed above. In considering whether it is likely—especially if the United Kingdom took the initiative—that this price-stabilizing system would be adopted by other great trading nations, the obvious precedent is provided by what took place in respect of the gold standard. This was initiated—as an entirely unilateral action—by the Bank of England, which, from 1840 until August 1914, constantly stood ready to buy bar gold of eleven-twelfths purity at 77s. 9d. per ounce—on delivery; and to sell it on demand at 77s. 10d. These were the

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“gold points”; and, thereby, gold was constantly valorized in terms of sterling; and *sterling was constantly valorized in terms of gold*. In practice four sovereigns weighed one ounce which then became worth 80s.; and all Bank of England notes carried a “*Promise to Pay*” their face value in gold (i.e. in sovereigns) on demand. But, with the outbreak of war in 1914, legislation was at once introduced authorizing the issue of “Currency Notes” which the Bank of England was empowered to substitute, for internal use, in place of gold. These bore quite a different wording which read “*Currency Notes are Legal Tender for the Payment of Any Amount.*” And since that time—for all practical purposes—there has been no gold standard in Great Britain. Nowadays the Bank of England’s notes bear an entirely illusory endorsement reading “*I Promise to Pay the Bearer on Demand the sum of One Pound*”—over the signature of the Chief Cashier. That this is equivalent to a brick-maker’s promise to pay for one brick with another precisely similar brick does not disturb anyone *within Great Britain*, where the national criterion of security is still “as safe as the Bank of England.”

H.2.—GREAT BRITAIN’S EXAMPLE FOLLOWED

Reverting to what happened after 1840: all the other great trading nations whose banks held gold reserves, sooner or later followed Britain’s example of *their own initiative*—each fixing its own gold *points* in terms of its own currency; so that gold became valorized in multi-national currencies, and those *multi-national currencies were valorized in terms of gold*. And, as “things that are equal to the same thing are equal to one another,” there was stability in the currency-exchange rates between all such nations. The all-important feature of the gold standard was its invariable *double guarantee*, the second part of which involved the constant ability by the Central Banking Authority of each

nation concerned to exchange its currency—whether of paper, silver or base metal—at a fixed rate, for gold. It is obvious that this second form of guarantee could not apply to *commodity*-valorization as advocated in this book, unless and until a Valorizing Corporation had acquired stocks of any commodity at its low *point*; and, then, only for as long as it held such stocks.

It was owing to the reduction of gold reserves in the hands of most of the Central National Banks, due to the incidence of the first Great War, that the nations concerned, being then unable to exchange their currencies for gold on demand, were not in a position to adhere to the gold standard; and, since then, there has been no constantly valued material-exchange for paper or base metal currencies; and the external relative values of any one of these for another has varied to extents that have been extremely embarrassing and hampering to international trade. During the past forty years, a constantly increasing proportion of the world's gold has found its way into a sterile hoard at Fort Knox in the U.S.A., where it is of no avail to man or beast—either in America or anywhere else. That every trading nation still does its utmost to retain reserves of this metal is to enable it—as a last resort—to bridge any gap between its overseas earnings of foreign currencies and what it has to pay for its imports—*vide* E.9. If it is not able to do this it becomes virtually insolvent.

H.3.—RIGIDITY OF GOLD *Points* INAPPLICABLE TO COMMODITIES

It will have been appreciated that the inflexibility which characterized the gold standard could not be applied to the valorization of basic products; because—seasonal factors apart—most of these can be produced or exploited at will; and that is why the *points* of each valorized commodity would be subject to automatic adjustment—in accordance

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with a pre-notified scale—in inverse ratio to the accumulations (if any) of specified quantities of each product in P.S.C. reserve. Nevertheless, it seems reasonable to anticipate that, just as many great nations adopted the gold standard, so would they inaugurate their own systems of commodity valorization—each in terms of its own currency; especially if, as with the gold standard, Great Britain set the example. To point to the fact that Britain's influence in the world of finance is very different from what it was from 1840 till 1914 does not affect the issue. The volume of her overseas' trade is still far greater than that of any other nation; and it is essential that this shall continue to increase.

H.4.—NEITHER INTERNATIONAL AGREEMENT NOR UNIFORMITY ESSENTIAL

No preliminary international agreement would be necessary before multi-national adoption of this system. Each nation would act independently without any sacrifice whatever of its sovereign—or of its trading or fiscal—rights; and without having to enter into any external financial commitments whatsoever. What was a boon to one would be a boon to all. It could not be expected that even any two nations would valorize the same list of products; though without doubt many of the same commodities would be valorized in several countries. Still less is it to be expected that, of the products which were in fact valorized by several nations, there would be any prior agreement as to the price levels (in different countries) at which the initial indices and resultant *points* were established; or that the sizes of BLOCKS should be uniform. Manifestly some country's BLOCKS would be far larger than others. Nevertheless, it could be expected that common sense would result in there being some correlation of money values in the various nations' valorization indices—and *points*—and any errors in judgment in determining the

valorizing formula (as in A.8 and B.21) would be self-rectifying in the automatic working of this system—as a background to the normal functioning of trade and commerce; that is, to the extent that there were surpluses (from time to time) to market absorption at or above P.S.C. low points then operative; *vide* B.2.

The essential features are that each nation which inaugurated the system would need, at the outset, to publicize the list of products which its P.S.C. valorized in terms of its own currency, with the initial commodity *points*—together with the size of a BLOCK of each such product and the percentage by which these *points* would be adjusted at the intake (if any) of each BLOCK. All such information could be conveyed to an international agency which could co-ordinate and publish it in appropriate languages, with weights and measures converted to those in use in other countries; but with the currencies unconverted—because weights and measures are constant, whereas currency exchange rates vary. Some nations' Price Stabilizing Corporations might valorize only a few products; others, perhaps twenty—or more.

While some great trading nations might not inaugurate this system, themselves, they would none the less benefit from its operation within the countries which had adopted it. Because all "outside" nations would be assured of minimum prices (in the currencies of "operating" countries) for their exports of any product that had been valorized by any P.S.C.; and, if and when any P.S.C. was holding in reserve a commodity which an "outside" nation wished to buy, its maximum price (in the holding-P.S.C.'s currency) would be known. But (just as within any country which had the system functioning) no "external" seller would have recourse to any P.S.C. excepting of his own volition and as a last resort; nor would any "external" buyer have recourse to any P.S.C. (which held reserves) excepting of his own volition and as a last resort. And the normal volume of

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international trade in products that were valorized (by any nation) would continue in ordinary commercial channels. But there would be a floor in the world market at the highest of the *low points* (in the currency of the P.S.C. whose *low point was highest* at that time); and there would be a ceiling in the world market at the lowest of the *HIGH points* (in the currency of the P.S.C. whose *HIGH point was lowest* at that time). Though the reading of the foregoing may be found somewhat confusing, there would be nothing that was in the least confusing when the system was in effective operation in any one great trading nation.

It will, perhaps, have become clear that very few small nations would find it necessary even to consider setting up their own P.S.C.s—unless it was that a small nation wished to valorize, in its own currency, some basic product of which it was the world's chief supplier—in order to limit fluctuations in the prices at which this would be able to flow on to world markets. But, to the extent that a small nation was the virtual monopolist of production of some essential product (in the sense that Palestine stands in relation to potash) there are other and more direct ways of regulating the volume of exports of that sort—so as to maintain prices at whatever level the producing country may decide.

H.5.—PRODUCTS TO FIND THEIR OWN PRICE LEVELS

To illustrate the system in multi-national operation, suppose that the initial valorization index for one metal, by each of three nations' Price Stabilizing Corporations (*inter alia*) was as shown below; that the BLOCK in each case was 10,000 tons; and that the conditional index and *points* reduction was by 5 per cent on the intake, by each P.S.C., of one BLOCK—with further reductions each of 5 per cent (of the initial index and *points*) at each subsequent intake of each additional BLOCK. It is not suggested that the initial

indices of any three separate P.S.C.s would differ to the extents shown in this illustration, which is designed solely to make clear the automatic working of the system, when operating multi-nationally. On the other hand, the initial indices and *points* might vary to a greater extent than is shown here.

Nations Operating P.S.C.s	Initial Index per ton	Initial Low Point per ton	Conditional High Point per ton
The U.K. . .	£100	£90	£110
The U.S.A. . .	\$300 (£107 2s.)	\$270 (£96 8s.)	\$330 (£117 6s.)
FRANCE . . .	Frs. 90,000 (£90 16s.)	Frs. 81,000 (£81 14s.)	Frs. 99,000 (£99 17s.)

At the levels of exchange shown in the above table (and apart from freight and insurance which would be relatively constant) the American P.S.C.'s initial low *point* would prove more attractive (in terms of money) than the British initial low *point*; and France's initial low *point* would be least attractive—to the extents shown in the conversions, in brackets.

Only if and when *commercial* prices in any part of the world were less attractive, in the estimation of sellers, than the relatively highest of the *low points* then offering, would producers consider selling to *any* P.S.C. Then, on the illustration given (and unless freight charges were a deterrent), they would consign to the American P.S.C.—because \$270 is a better money price (by £6 8s. a ton) than £90. But, if and as soon as two BLOCKS of this metal had accumulated with the U.S. P.S.C., its dollar *points* would have dropped twice by 5 per cent to \$243 (low)—equivalent to £86 17s.; and \$297 (HIGH)—equivalent to £106 (which would then be the world-ceiling price; *vide* B.15). At that stage (freight costs apart) the British P.S.C.'s sterling

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points would have become more attractive; and further consignments (for which markets paying £90 or better could not be found) would tend to be sent to Great Britain for sale to the British P.S.C.—unless disposed of on as good (or better) terms in the British market. Then, similarly, if two BLOCKS accumulated in Britain, the French *points* in francs would, in turn, attract supplies. And, if the system were operated by Germany, Italy, Sweden, Belgium, Japan—and other nations—temporary surpluses to market absorption would flow automatically into a wide range of national pools, thereby establishing multi-national parities of values in terms of the currencies of all such nations. There would then be an overall minimum world price, equivalent to the highest (then) effective low *point minus* cost of freight and insurance; and there would then be an overall maximum world price, equivalent to the lowest (then) effective HIGH *point plus* cost of freight and insurance.

H.6.—NICE INITIAL UNIFORMITY NOT TO BE EXPECTED

It is to be reiterated that there would be nothing approaching the nice uniformity (varying initial index and *points* values apart) which is visualized in the foregoing illustrative example. Sizes of BLOCKS would obviously vary considerably among P.S.C.s, especially if each adopted the yard-stick of a BLOCK's approximating to one-eighth of a nation's annual usage of a product; *vide* A.10. Moreover, some nations might set their *points* at less than (or more than) 10 per cent below and above their index. No such divergencies could affect the ultimate results which would inevitably depend upon the volume of surpluses that were taken in by P.S.C.s. In short, if there were not substantial surpluses, no reserves would be taken in by any P.S.C.; and the situation (as compared with before the inauguration of this system) would remain unaltered—excepting that all

producers of valorized goods would have the advantage of a premium-free insurance against the recurrence of slump; again *vide* B.2. It is as well to repeat here that the setting up by any nation of a P.S.C. would in no way hamper it in imposing tariffs or in conceding preferences—as is made clear, so far as the United Kingdom is concerned, in F.2.

H.7.—P.S.C.s COULD NOT “COMPETE”

It has been suggested—by people who have not thought through the working of this system—that it might lead to competition between different nations’ P.S.C.s; but that idea is, of course, quite untenable. However, suppose that—with some such objective in mind—Nation “A” waited until several other countries had set up their Stabilizing Corporations, each announcing its initial *points*; and that Nation “A” then followed suit—but with initial *points* very much higher than the others, with a view to providing special inducements to consignors. For it to do anything of the sort could only mean that it had entirely overlooked the fact that, without ever establishing its own P.S.C., it could at any time attract consignments simply by offering higher prices than those obtainable elsewhere—always provided that the sellers were satisfied with the reciprocal purchasing power of Nation “A’s” currency. It would be absurd to suggest that the mere setting-up of its own P.S.C. would vest Nation “A” with any special “drawing power” as a buyer.

In this connection it may suffice to recall that, when the gold standard was in effective multi-national operation, if any nation raised its gold *points*—offering more of its currency for a given weight of gold than hitherto—the external value of that currency automatically depreciated in terms not only of gold but of every commodity, manufactured article, or service which it wished to import—especially from nations that had adhered to their original

gold *points*. And similar results would follow from the arbitrary raising of the *points* of any product valorized under the proposed system. Manifestly, the factor which would ultimately determine the direction of consignment to P.S.C.s would not be mere money values but the reciprocal purchasing power, in terms of goods and services, of each currency so obtained—which is as it should be.

It will now have been appreciated that the last of the series of questions posed at the head of this chapter could not arise—because there would have been no *agreement* as between different nations' P.S.C.s to which these had undertaken to adhere. Nevertheless, each such P.S.C. would have given firm undertakings to producers of all commodities which it had valorized—along with (conditional) undertakings to buyers of such products as it might take into its reserve. Admittedly, there could be no *assurance* that every nation's P.S.C. would abide strictly by such undertakings; but any breaches which occurred could have very little effect on international prices. Moreover, any such breach would cause all nations, to which the “defaulting country” had to look for future supplies, to be then very chary in dealing with that “defaulter.” However, there is one direction in which a P.S.C. could depart from the precise terms of its undertaking to sellers and buyers without incurring the odium of being regarded by sellers as a defaulter; because, if any P.S.C. so wished, it could increase the size of its BLOCK (on the intake of which the index and *points* would fall to a pre-notified extent). But this would be a quite-futile “breach,” because precisely the same result could be obtained—legitimately—by the Government concerned buying up wholly or (more likely) in part the reserves held by its own P.S.C.—if there were any special reason for a move of that sort; *vide A.17*. There would be no let-down of sellers here—in fact this would be to their advantage; and it would not be likely that any such action would be taken unless it was deemed to be in the long-term

interests of that nation's buyers. While it is true that (if large volumes were involved) world prices could be influenced as a result, world prices would be much more greatly affected if that Government had commenced buying as a vigorous competitor in world markets.

H.8.—INTERNATIONAL ADMINISTRATION IMPRACTICABLE

As we have seen, the gold standard was initiated and independently administered by and within each nation which adopted it; but it was *none the less international in its effects*. No one ever suggested that it should be internationally *administered*—much less how that could have been achieved—because the very essence of its effectiveness lay in the capacity of each nation independently to administer it. And, in the same way, the very essence of commodity valorization would lie in the capacity of each nation adopting it to administer it independently. In any event, it would seem to be quite impracticable for *international commodity valorization* to be instituted and maintained for the following reasons (*inter alia*): (a) there is no international currency—nor any substitute for this, as there was when the gold standard operated; (b) it would be virtually impossible to secure international agreement as to the levels, in various countries, at which the initial valorization indices should be set; and (c) the deciding of where reserves were to be held would lead to interminable wrangling.

Nevertheless, to the extent that commodity valorization became effective, it could do much towards providing a substitute for the gold standard and, to some extent, be an improvement on the gold standard; because it could lead to reasonable stability of both basic commodity prices and of monetary exchange rates. In the latter respect, however, exchange rates would have a much greater (but, perhaps, more salutary) elasticity—in terms of essential basic products—than was possible under the gold standard. In

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these circumstances it would seem that—in due course—multi-national commodity-valorization could provide a firmer basis for world economy than any hitherto experienced.

Though it would certainly be desirable that several nations should inaugurate this system at about the same time, it might be extremely difficult to bring this about. Because it would inevitably involve *attempts* to arrive at agreements in detail—which would be as unnecessary as they are time-wasting. There is no precept like example and, as is shown in the foregoing chapters, it would seem that the United Kingdom would have nothing to lose—with the prospect of having much to gain—by taking the initiative. No adverse effects on other nations' economies could possibly follow; while the door would be opened to the flow of results that could be of immeasurable advantage to the British people *without being of any disadvantage to the peoples of any other nations.*

Question 15: What would there be to prevent Nation "X", which did not adopt this system from standing aloof and allowing the nations which had adopted it to take in the slack of over-production (at their own expense); and, then, for Nation "X"—when prices were low—to step in and acquire stocks at that stage? In short, would not Nation "X" have got all the advantages without having had to invest in reserves?

H.9.—ESTABLISHMENT OF RESERVES A PRUDENT POLICY

The foregoing question would presume that the Government of Nation "X" possessed a prescience which is not ordinarily given to mortals. There would certainly not be anything to prevent such a nation holding aloof as

hypothesized—excepting common prudence. And such prudence might suggest that it would be unwise for any nation (to whose economy products that were being accumulated by other nations' P.S.C.s were essential) to neglect to take similar precautions, if and when the occasions offered. Because, in the ordinary cycle of events, seasonal factors, political unrest, international discords, and—perhaps—"local" wars, would almost certainly cause *market* shortages from time to time. And, in any such circumstances, nations whose P.S.C.s had laid in stocks at the levels of their low *points* would be much more advantageously placed than Nation "X," which had not done so. In the then situation, Nation "X" could acquire supplies only by paying to those other nations' P.S.C.s the *HIGH point* then ruling—plus all freight charges. Moreover, in the unhappy event of large-scale war, the governments of all nations whose P.S.C.s were holding stocks would almost certainly take over all these as strategic reserves; *vide A.17*. While it is of course conceivable that Nation "X" might gain from acting as supposed in the question—it would be an incalculable risk which no prudent Government would seem likely to take.

Question 16: Could not this system be put into serious jeopardy by some nation which, finding itself burdened with heavy stocks, decided to disregard the automatic functioning of its own P.S.C. and sold these for what they would fetch; and would this not make the position of other nations' P.S.C.s untenable?

H.10.—THIS SYSTEM NOT OPEN TO SABOTAGE

It would not have been necessary for any nation to have a P.S.C. functioning before it accumulated burdensome

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stocks which could be as the result of excess home-production—as with the burdensome surpluses held by the Americans. While any such nation would naturally wish to reduce these, as was discussed in Chapter III, it would be most unlikely that it would permit disposals on such a scale—and at such prices—as would be inimical to the interests of its own nationals who were continuing to produce commodities already in surplus—though with diminishing official encouragement.

However, a nation operating its own P.S.C. could have set its initial indices and *points* so high, and its BLOCKS so large, as to result in its accumulating burdensome surpluses of *imported* products, at some stage—i.e. of products consigned to it from external sources. It does not seem likely that any nation would so act; or that, if it had done so, it would be so irresponsible as to decide to “sell its surpluses for what these would fetch.” But, if that did occur, what these disposals “would fetch” would be the prices represented by the then operative low *points* of every P.S.C. that was functioning. But, in order to secure payment at such levels, the “irresponsible P.S.C.” would have to meet all costs involved in moving its reserves out of its own stores, in transporting these to the receiving countries and then into *their* P.S.C. reception dépôts; and that would not seem to be a very attractive proposition. However, if it did take place, such deliveries would be taken up in the countries to which they had been consigned without any serious price disruption anywhere.

CHAPTER IX

SUMMARY OF ADVANTAGES

J.1.—TO BASIC PRODUCERS

The inauguration of the form of insurance to basic producers against future recurrence of slumps which is implicit in the system described in this book would immediately engender a measure of sustained confidence which is now lacking. It would stimulate both short-term and long-term enterprise in selected production; and, in due course, it would ensure a voluntary diversion of capital and enterprise from the production of commodities that were then manifestly in excess long-term supply to the production of those manifestly in short supply—with reasonably balanced output of all such goods at stable but realistic prices in ultimate prospect.

J.2.—TO BRITISH CONSUMER-INTERESTS

The greatest early advantage which could accrue to the British people following their adoption of this system would derive from that substantial reduction in their cost of living which could result from consignments aggregating (say) two or more BLOCKS of wheat to their P.S.C. from countries holding this grain in burdensome surplus—with the safeguarding of the legitimate interests of all concerned as proposed in C.5 of Chapter III. Whether or not there would be any such consignments—not of wheat only, but of maize, raw cotton and (perhaps) tobacco—is an open question which has been discussed at length in that chapter.

Summary of Advantages

As to commodities not known to be in surplus supply, varying periods would elapse before the P.S.C. acquired any stocks. But, if anything approaching the price fluctuations between 1950 and 1957 recurred, it would be only a matter of time and of circumstances before reserves of most—if not all—the commodities likely to be valorized in the United Kingdom would be taken into P.S.C. ownership and/or custody; *vide* B.21 of Chapter II. And, thereafter, all consumer-interests would have the benefits of continuity of supply at reasonable and realistically stable prices—for so long as reserves were held under P.S.C. auspices. It is important that it should be appreciated that the wider the range of essential commodities brought within the functioning of this system, the greater would be the over-all stability imparted to the nation's economy.

J.3.—To SECONDARY INDUSTRY

The direct benefits to secondary industry would likewise be deferred until stimulated production (and/or the cessation or substantial diminution of stock-piling and/or the gradual breaking-down of burdensome surpluses—as applicable) caused prices of valorized products to revert to levels at which reserves were established under this system; or, in the event of there being no such price decline (in respect of any valorized product) until the automatic raising—of the index and *points*—after two years, caused reserves to reach the P.S.C.; again, *vide* B.21. But, as soon as there were such reserve supplies available, secondary industry (without any disadvantage to basic producers) would commence to reap sustained benefits; because, at that stage:

- (a) User-industries would be assured of continuity of supply of standard raw materials within a known and reasonable range of market price fluctuations.

- (b) They would have unprecedented facilities for establishing their own reserves of raw materials (held in their ownership under Corporation custody) against which bank advances would be available on the most favourable terms; because, with the system in effective operation, any user could lay in reserves in the confidence that no competing firm would be able to purchase *its* reserves on more favourable terms than those constantly offering (as a floor to the market) under the conditional valorizing system; and, *in the sphere of international competition between kindred industries, a similar assurance would constantly apply*; e.g. (freight and insurance apart) the foreign textile industrialist would constantly have to pay prices (for standard raw materials) which, at their most favourable level, could not be below the highest price *then offering* by any nation's Price Stabilizing Corporation.
- (c) Secondary industry in any nation whose P.S.C. had acquired reserves would have the added advantage of increased potential markets among basic producers whose reciprocal purchasing power—thereby increased—could keep pace with their (reasonably balanced) production; because, as selective production increased, so would effective demand (exercised directly or indirectly) for capital and/or consumer goods. In short, secondary industry (and non-valorized primary industries) would be operating in such a setting of general stability as has not hitherto been experienced.
- (d) Conditional valorization could, of course, be extended beyond the strictly primary field so as to apply to early-stage manufacturers; that is, up to the stage at which they were still *standard "raw"* materials from the viewpoint of fabricating industries.

J.4.—TO MERCHANTING INTERESTS

The proposed margin of 22·2 per cent between the low and high valorizing *points* would afford ample scope for the profitable, legitimate functioning of the brokers, dealers and merchants who provide the essential mechanism of trade and commerce—especially as “parcels” smaller in volume than those which the P.S.C. would accept or dispose of would have a slightly greater fluctuating price margin than 22·2 per cent (*vide* B.16). The special facilities provided by the Valorizing Corporation for its holding of stocks in commercial ownership, as firm securities for bank finance, would be a great boon to merchants, not only in regard to their operations within Great Britain, but especially in connection with external entrepôt trading.

In the latter connection—under the aegis of this system—it could confidently be expected that entrepôt trading which, in the past, has proved so advantageous to the United Kingdom and to Europe, could be fully revived, because of:

- (a) Great Britain's unique geographical position;
- (b) the stability of her political and financing institutions and the (then) stability of her currency;
- (c) the world-acknowledged experience and integrity of her traders, and the extent of their established international ramifications.

J.5.—TO FINANCING INTERESTS

The manifold advantages which would accrue to investors in overseas enterprises and to all phases of short-term and long-term finance in such a setting of stability was made clear in Chapter V—F.5 *et seq.* In like manner, investment in home industrial enterprises enjoying the advantages set down in J.3 above would be much more (legitimately) rewarding over the long term than in an economic climate

characterized by alternating booms and recessions. Though the incidence of booms can enrich individuals who cash in at the right time on capital gains, the net result is of no advantage whatever to the national economy.

J.6.—TO ASSURANCE INTERESTS

The inducement to people to invest in endowment and life policies would be the greater with every prospective increase in the purchasing power of the £; and it could be anticipated with well-founded confidence that money invested in such assurances (while inflation is operating) would have increased value in terms of goods by the time endowment and (average) life policies became payable—a highly desirable reversal of the trend of recent years.

Similar inducements would apply to all forms of savings.

J.7.—TO SHIPPING

Manifestly the continuously expanding multilateral trade which would develop with the effective operation of this system would be of ever-increasing advantage to shipping interests.

J.8.—INTERNATIONAL RELATIONS

It is beyond argument that the development and maintenance of good international relations can be greatly facilitated on a basis of stability of world economy which would ultimately ensure "*freedom of access, by all nations great and small, . . . on equal terms to the trade and raw materials of the world which are needed for their economic advantage*"—again to quote from the Atlantic Charter.

APPENDIX I

IMPORTS BY VALUE IN 1956 OF COMMODITIES WHICH WOULD SEEM SUITABLE FOR VALORIZATION

(See Chapter I, A. 2)

In order to present a comprehensive picture of the investment which might be involved, in the highly improbable event of the P.S.C. being required to buy one BLOCK (here taken as being one-eighth by value of the year's total imports) of each commodity in each group listed below, the c.i.f. cost is taken as representing the sum of the *data* for the products in that group. This would mean that (by the application of the formula in A.8 of Chapter I) the sum of the individual *initial* indices would be 12½ per cent below those *data*; and the sum of the initial low *points* 21½ per cent below those *data*.

In the table which follows, Column 2 shows the c.i.f. costs of one year's imports (at volumes and prices as in 1956) of the groups of commodities in Column 1. Column 3 shows what the costs would be at the sum of the *initial low points* (21½ per cent below *data*) if a full year's reserves were bought at that level; and Column 4 shows what the P.S.C. would have to invest if called upon to buy one BLOCK of each product in each group—i.e. one-eighth of the figure (to the left) for that group.

(1) Commodity Group	(2) C.I.F. Cost 1956	(3) C.I.F. Cost Less 21½%	(4) Cost to P.S.C. of 1 BLOCK of each Product in Group
Grain—unmilled	200	157·50	19·69
Sugar—unrefined	100	78·75	9·84
Cocoa—raw	18	14·17	1·77
Tobacco—unmanufactured	79	62·31	7·80
Rubber—crude	70	55·12	6·90
Timber—partly sawn	160	126·00	15·70
Wool—raw, sheep's and lamb's	168	132·30	16·54
Cotton—raw	96	75·60	9·45
Other textile fibres	30	23·62	2·95
Metalliferous ores and concentrates (a)	157	123·64	15·45
Pig iron	13	10·23	1·28
Non-ferrous base metals	222	174·82	21·85
Petroleum—crude	244	192·15	24·02
Totals	1,557	£1,226·21	£153·24

(a) Ores and concentrates could not be valorized as such (owing to their diverse metal contents); but valorization could be extended to each metal as extracted, which would amount to the same thing—excepting that the values of extracted metals would be appropriately higher than their values as metals-in-ore, or as metals-in-concentrates.

[Appendix I continues]

Appendix I

The Illustrative Statement on page 53 shows that any P.S.C. purchases beyond one BLOCK of any product would be at prices which fell automatically by 5 per cent (of the initial low point) at the intake of each additional BLOCK of that product.

The imports in the above categories represented 40 per cent, by value, of the United Kingdom's total imports (costing £3,899 million) in 1956. While it is not suggested that all the commodities in these groups should be valorized, the greater the number of products (in which the Nation's trade is substantial) that were brought within the proposed system, the greater would be its ultimate stabilizing influence on the Nation's (and on world) economy.

Without doubt, valorization could be extended, also, to several individual products embraced in other groups such as the following (with the cost of imports during 1956 in brackets): chemicals (£107 million); crude fertilizers (£40 million); animal and vegetable oils (£57 million); feeding-stuffs for animals (£51 million); and, perhaps, wood-pulp (£107 million). But these groups include many individual products which—because they deteriorate when held in storage—could not be brought within the suggested system.

APPENDIX II

FLUCTUATIONS IN PRICES OF SOME BASIC PRODUCTS

Over the years shown, the percentage is that by which the maximum price exceeded the minimum in each year, and over the whole period.

Prices are c.i.f. United Kingdom unless otherwise stated.

RUBBER—R.S.S.

Pence per lb.

	Min.	Max.	Difference
1947 ..	8½	16	97%
1948 ..	11	15½	37%
1949 ..	9½	15½	52%
1950 ..	15	71	373%
1951 ..	40½	73	80%
1952 ..	21½	41½	95%
1953 ..	16	26½	66%
1954 ..	15½	30½	92%
1955 ..	25	43½	75%
1956 ..	21½	36½	68%
<i>Whole period</i>	<i>8½</i>	<i>73</i>	<i>798%</i>

Source: Rubber Growers Association.

WOOL—Merino 64s.

Pence per lb.

	Min.	Max.	Difference
1947 ..	45½	72	600%
1948 ..	82	106	29·3%
1949 ..	87	109	25·3%
1950 ..	125	224	71·2%
1951 ..	112	314	180·4%
1952 ..	110	137	24·5%
1953 ..	139	162	16·5%
1954 ..	108	142	35·5%
1955 ..	96	116	20·8%
1956 ..	99	127	28·4%
<i>Whole period</i>	<i>49½</i>	<i>314</i>	<i>590·0%</i>

Source: International Wool Secretariat.

TIN

L.M.E.—per ton

	Min.	Max.	Difference
1950 ..	£578	£1,295	124·1%
1951 ..	£806	£1,615	100·0%
1952 ..	£918	£1,003	9·2%
1953 ..	£568	£980	72·5%
1954 ..	£645	£825	27·9%
1955 ..	£680	£841	23·7%
1956 ..	£724	£890	22·9%
<i>Whole period</i>	<i>£568</i>	<i>£1,615</i>	<i>184·3%</i>

COPPER

L.M.E.—per ton

	Min.	Max.	Difference
	(b)	(b)	
1950 ..	(b)	(b)	
1951 ..	(b)	(b)	
1952 ..	£216	£247	14·3%
1953 ..	£216	£310	43·5%
1954 ..	£290	£405	39·7%
1955 ..	£263	£437	66·2%
<i>Whole period</i>	<i>£216</i>	<i>£437</i>	<i>142·3%</i>

LEAD

L.M.E.—per ton

	Min.	Max.	Difference
1953 ..	£74	£104	40·5%
1954 ..	£81	£111	38·0%
1955 ..	£101	£120	18·0%
1956 ..	£106	£123	16·0%
<i>Whole period</i>	<i>£74</i>	<i>£123</i>	<i>67·2%</i>

ZINC

L.M.E.—per ton

	Min.	Max.	Difference
	(b)	(b)	
1953 ..	£63	£96	52·4%
1954 ..	£69	£84	21·7%
1955 ..	£84	£101	20·2%
1956 ..	£90	£105	16·6%
<i>Whole period</i>	<i>£63</i>	<i>£105</i>	<i>66·7%</i>

(b) Price controlled.

Source: The Metal Bulletin.

[Appendix II continues]

Appendix II

COTTON—American Middling

Cents per lb. Spot (a)

	Min.	Max.	Difference
1946 ..	24·7	36·9	49·4%
1947 ..	31·6	37·5	18·7%
1948 ..	31·2	37·6	20·5%
1949 ..	29·6	32·9	11·2%
1950 ..	31·0	42·6	40·6%
1951 ..	35·0	45·2	29·0%
1952 ..	33·1	41·9	26·6%
1953 ..	32·5	33·4	2·8%
1954 ..	33·2	34·4	4·2%
1955 ..	32·9	34·1	3·6%
1956 ..	31·9	35·5	11·3%
<i>Whole period</i>	24·7	45·6	84·6%

(a) Averaged over 10 to 14 markets in U.S.A.

Source: F.A.O. Bulletin of Statistics.

JUTE—L.J.A. Firsts

Per ton

	Min.	Max.	Difference
			(b)
1946 ..	£81	£98	19·7%
1947 ..	£90	£108	20·0%
1948 ..	£84	£113	34·5%
1949 ..	£106	£119	12·3%
1950 ..	£120	£229	90·8%
1951 ..	£73	£175	140·0%
1952 ..	£76	£99	30·3%
1953 ..	£80	£107	33·7%
1954 ..	£80	£109	36·2%
1955 ..	£82	£112	36·6%
<i>Whole period</i>	£73	£229	213·7%

(b) Prices controlled.

Source: Courtesy of Jute Industries Ltd.

SISAL HEMP—B.E.A. No. 1

Per ton

	Min.	Max.	Difference
1948 ..	£85	£98	15·4%
1949 ..	£93	£118	26·9%
1950 ..	£125	£200	60·0%
1951 ..	£200	£250	25·0%
1952 ..	£91	£230	152·7%
1953 ..	£90	£98	8·8%
1954 ..	£69	£103	49·3%
1955 ..	£69	£85	23·2%
1956 ..	£71	£90	26·7%
<i>Whole period</i>	£69	£250	262·3%

Source: Courtesy of Wigglesworth & Co. Ltd.

MANILLA HEMP—J.2

Per ton

	Min.	Max.	Difference
			(b)
1948 ..	£74	£99	33·7%
1949 ..	£80	£142	77·5%
1950 ..	£107	£204	90·7%
1951 ..	£159	£218	37·2%
1952 ..	£99	£177	78·8%
1953 ..	£114	£146	29·8%
1954 ..	£83	£119	44·5%
1955 ..	£85	£100	17·7%
1956 ..	£87	£115	32·2%
<i>Whole period</i>	£74	£218	194·6%

Source: Courtesy of Wigglesworth & Co. Ltd.

SUGAR—Cuban unrefined

Per cwt., c.i.f. U.K. (c)

	Min.	Max.	Difference
1948 ..	24s. 9d.	28s. 11d.	20·2%
1949 ..	24s. 9d.	39s. 1d.	61·3%
1950 ..	36s. 2d.	50s. 7d.	40·0%
1951 ..	44s. 5d.	71s. 3d.	56·3%
1952 ..	34s. 10d.	43s. 10d.	25·7%
1953 ..	28s. 2d.	33s. 11d.	20·4%
1954 ..	27s. 11d.	30s. 11d.	10·8%
1955 ..	31s. od.	33s. 3d.	7·3%
1956 ..	32s. 9d.	47s. od.	43·5%
<i>Whole period</i>	24s. 9d.	70s. 3d.	187·9%

(c) Basis: Annual average freight rate.

Source: Courtesy of C. Czarnikow Ltd.

COCOA—Raw

Per cwt., c.i.f. U.K. (d)

	Min.	Max.	Difference
			(b)
1948 ..	£9 10s.	£11 os.	15·8%
1949 ..	£11 7s.	£16 os.	41·0%
1950 ..	£11 10s.	£16 10s.	43·5%
1951 ..	£12 os.	£17 17s.	48·7%
1952 ..	£18 15s.	£27 os.	44·0%
1953 ..	£12 17s.	£19 5s.	50·0%
1954 ..	£8 10s.	£12 os.	41·2%
<i>Whole period</i>	£8 10s.	£27 0s.	217·7%

(b) Price controlled.

(d) Nearby futures.

Source: Courtesy of Rowntree & Co. Ltd.

APPENDIX III

CAPITAL COSTS OF STORAGE

1.—FOR GRAINS AND OTHER PRODUCTS STORABLE IN SILOS

VARIOUS specifications and costs have been taken out by competent authorities for silos of several dimensions; but for the purpose of this Appendix it may suffice to quote what follows. This information has been courteously supplied by Mr. G. D. Allison, B.Sc., M.I.C.E., A.M.I.W.E., writing as a Director of Preload Limited—Engineers in Prestressed Concrete—of Cliftonville, Northampton, and of 20 Lowndes Street, London, S.W.1:

"I would suggest that a suitable silo could be in the form of a cylindrical tank with a wall height about one-fifth of the internal diameter. The wall would be of prestressed concrete constructed by the Preload method, and it would be roofed with a spherical shell dome inside which the surface of the stored grain could rise at its natural angle of repose. I estimate that such 'tank-type' silos would cost today (mid-1957) about £4 per ton for 5,000-ton units, and £3 10s. per ton for 10,000-ton units. If it should be necessary to restrict land occupation by making silos taller and of lesser diameter, I think the above figures would have to be increased by 10s. per ton in each case."

The foregoing does not make provision for any internal (perforated) piping to facilitate air-conditioning or the introduction of gaseous insecticides (should either of these measures prove necessary) as suggested in Chapter II, B.4; nor is any provision made for handling the product stored. However, it may be assumed that the cost of these items would not exceed the equivalent of a further £1 per ton of capacity—making (say) £5 per ton in all; see B.7 of Chapter II. And, without doubt, the grouping of a minimum of (say) ten 5,000-ton units at any one site would enable considerable economies to be effected.

2.—FOR COMMODITIES SUCH AS RUBBER, AND TEXTILE AND FIBROUS RAW MATERIALS

Assumed Requirements—after Consultation with Competent Authorities

- (a) That a standard store shall provide appropriately allocated space for the storing efficiently of a commodity requiring 48 cubic feet of space per ton;

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- (b) that each standard store—of which there may be any number—shall be compartmented into easily-accessible units each to provide for 100 tons and/or for 150 tons;
- (c) that the buildings shall require a minimum of maintenance; and
- (d) that each building shall be of a type that can be left unattended.

Uniformity of Specifications and Costs

Owing to the wide range of specifications which could be considered—and the equally wide range of costs—it has been thought prudent, for the purpose of this Appendix, to give the specifications and costs of one particular type of standard type of structure which could be adapted to all the likely needs of the proposed Price Stabilizing Corporation; and about which there is no doubt regarding costs—or efficiency.

Messrs. Taylor Woodrow (Building Exports) Limited, after full discussion with the author, have kindly responded to his request for details of their "Arcon" storage buildings, and of the costs of units of these that would conform to such requirements as those assumed above. The information provided by this Company (on the basis of prices ruling in mid-1957) follows.

"Four schemes have been prepared giving alternative methods of storage with alternative sizes of buildings. At the same time, for each site, the minimum requirements of concrete hardstanding, roads and fences have been suggested. We can provide the Arcon Storage Building in varying spans—of which the following have been suggested for these four schemes: 33 ft. 4 in. (two schemes), 50 ft. and 73 ft. There are other spans available, i.e. of 40 ft., 66 ft. 8 in. and 100 ft.—but these are not brought into any of the schemes here described.

SPECIFICATION

Framework is built of rolled steel stanchions, roof trusses and purlins being of tubular steel. The cladding of the building, incorporating the roof, would be of asbestos in a heavy gauge and would last a minimum of twenty-five years. The wall cladding is affixed to light steel R.S.J. horizontal rails.

Doors. External doors can either be heavy timber sliding externally, or aluminium roller shutter. In the case of scheme 4, where each

ERRATUM

Page 175, line three, for 2 in. × 47 in. read 2 in. × 4 in.

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store would be timber framed, but for economy, once again, covered over the framing with chain link fencing material.

Maintenance to the inside of the building would consist only of painting the steelwork approximately every three years, painting the external timber doors—if timber were used (it would be possible to use an aluminium roller shutter unpainted, although at first the cost is rather more expensive). Gutters and downpipes would be galvanized or Vitreflex enamelled, not requiring painting.

Concrete Roads. A suitable hardstanding for turning space is provided either in front of the building or around, as necessary for each scheme—this would be reinforced to take heavy loads, as also should the floor of the warehouse.

Fencing. This would be assumed to require 6 ft. high around the perimeter of the site, consisting of 12½ gauge 2 in. mesh galvanized chain link fencing properly fixed to reinforced concrete posts. Suitable pair of gates, minimum 15 ft. wide, would be included for access.

Lighting. A simple form of electric lighting would be provided to the stores and passages, amounting to three lighting points to the 150-ton store and two lighting points to each 100-ton store. Patent roof glazing normally provided.

Site Works. For the purpose of this survey it is assumed that the site is reasonably level, and not more than 12 in. of soil will have to be removed and carted away. Concrete roads and hardstandings would have 6 in. of hardcore and 6 in. reinforced concrete road properly divided with expansion joints and reinforced with a suitable fabric. The warehouse floor would have 2 in. of Granolithic hardware surface provided in addition.

Drainage. A suitable system of surface water drainage will be included to cover the drainage of the "Arcon" building, and also the roads and hardstanding. It is assumed for this survey that surface water can be discharged into an adjoining surface water sewer or into soakpits.

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Scheme 1

Storage building 250 ft. long \times 33 ft. 4 in. span \times 14 ft. 6 in. high to eaves, total floor area of 8,334 sq. ft. This can be divided into 10/150 ton stores and 5/100 ton stores. To avoid the expense of many external sets of doors, under this scheme five sets of doors or roller shutters only are required, each set serving three stores with chain-link sliding doors. These stores can all be approached from the front and we have therefore allowed for hardstanding to the front only with just sufficient access to the side and rear. Minimum site size 0.55 acre.

Scheme 2

Storage building 183 ft. 4 in. long \times 50 ft. span \times 14 ft. 6 in. high to eaves, total floor area 9,168 sq. ft. This will give storage capacity for 20/100 ton stores with two external sliding doors or shutters only, the stores being served internally by a 9 ft. passage down the middle. In this case to give easy access to the two doors, one at the front and one at the rear, a road has been carried around the site of a suitable size for turning and backing. Minimum site size would be 0.67 acre.

Scheme 3

Storage building 116 ft. 8 in. \times 75 ft. span \times 14 ft. 6 in. high to eaves, total floor area 8,750 sq. ft. This would contain 8/100 ton stores and 8/150 ton stores. Access would be by means of two doors at the front and two at the rear, each store being served by internal sliding doors and access through a 13 ft. 4 in. passageway within the building. A hardstanding of 50 ft. wide in the front and 30 ft. at the rear together with connecting roads has been included. Minimum site size being 0.55 acre.

Scheme 4

Storage building 216 ft. 8 in. long \times 33 ft. 4 in. span \times 14 ft. 6 in. high to eaves, total floor area 7,224 sq. ft. This building is subdivided into thirteen stores running back to front of the building of 150 tons capacity, giving in this instance a total of 1,950 tons. Access, as mentioned previously, would be external individual doors to each store. As in Scheme 1, hardstanding is required only to the front of the building with minimum access space to the sides and rear. Total minimum site size 0.47 acre.

Costs

These costs are given as a guide only and should represent a fair cost of building to the foregoing specifications in any area in

Appendix III

England, providing that the usual access for lorries is obtainable to each site.

The question of power for lighting must of course be related to each individual scheme, and is not included in these prices, as this may not be readily available on every site, nor may it even be necessary to have it.

We have included in the prices the concrete roads and hard-standings applicable to each scheme, as it must be assumed that these are required in the case of a building being put up on undeveloped ground. We have found in practice that the first three schemes taken as a whole vary remarkably little *in cost per square foot* in spite of the difference in planning and spans of buildings. We can, in fact, say that providing the basic area of the storage building is used as the reference, a figure of £2 per square foot should cover all works detailed above.

- As, of course, the area of each building varies from 8,334 sq. ft. to 9,168 sq. ft., the total cost of each building does in practice vary, as will be seen below. In the case of Scheme 4, although minimum requirements are needed in the floor area and site area, this reduction in floor area does reflect in the cost per square foot, which amount to 44s., although the total cost, because of its economic planning, becomes the cheapest."

SUMMARY OF COSTS

Scheme		Per ton capacity
No. 1	10/150-ton stores at £1,250 = £12,500 5/100-ton stores at £835 = 4,175	<u>£16,675</u>
		£8 6s. 9d.
No. 2	20/100-ton stores at £906 = £18,120	£9 1s. 3d.
No. 3	8/100-ton stores at £868 = £6,944 8/150-ton stores at £1,300 = 10,400	<u>£17,344</u>
		£8 13s. 6d.
No. 4	13/150-ton stores at £1,223 = £15,900	£8 3s. 1d.

AUTHOR'S COMMENT

In referring to capital costs of storage, in Chapter II—B.9, it is stated that proper facilities for storing rubber, textile raw products and the like would be in the vicinity of £10 per ton capacity. Messrs. Taylor Woodrow (Building Exports) Limited's estimates show a substantial saving on that figure.

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It has not been considered necessary to go into the costing of storage of industrial metals—but this would clearly be very much less. On the other hand, however, some commodities might require more space than 48 cubic feet per ton—which is the basis of the foregoing estimates. But, overall, to allow £10 per ton capacity would seem to make ample provision—on the basis of costs in 1957.

APPENDIX IV

IN RETROSPECT

THE following records some of the author's endeavours—extending over very many years—to influence national policy towards (a) the establishment of reserves of basic products and (b) the reasonable stabilization of their prices.

WHEAT RESERVES ADVOCATED IN 1924

In a book colloquially styled *The Kangaroo Keeps on Talking*, published in 1924, to which the then Prime Minister, the Right Honourable Stanley Baldwin (later the Earl Baldwin) paid the author the signal compliment of contributing a commendatory Introduction, Mr. St. Clare Grondona pointed to the fact that wheat supplies from the Dominions over the preceding four years (during which these had averaged 39 per cent of the United Kingdom's total wheat imports) had cost less by 3s. a cwt.—or some 15 per cent—than supplies from foreign sources; and he went on to write (with the italics as shown):

One way to take more advantage of the Empire's wheat-growing capacity would be by agreement between the British and Dominion Governments whereby a minimum price would be fixed over a period of, say, five years. Any surplus would go into national granaries throughout Great Britain. *Such reserves would be as valuable as warships* one of whose main functions is to protect transport of food in time of war. What the minimum prices should be (for growers in Great Britain and in the Dominions) would depend on the result of a conference between all interests concerned. What would be aimed at would not be nationalization of wheat trading but stabilization of wheat prices.

In that part of his Introduction which referred to the foregoing, Mr. Baldwin said: "What the author has written may have more far-reaching effects than he contemplates." No action was taken until fourteen years later when the *Essential Commodities Reserves Act* was passed in July 1938; and it appeared to have achieved little before the outbreak of hostilities in 1939. And, throughout that war, the United Kingdom had to continue importing immense tonnages of wheat at a terrible cost in the lives of seamen, and in the loss of shipping.

Appendix IV

COAL RESERVES PROPOSED IN 1935-36

When District Commissioner for the Special (Depressed) Areas in West Cumberland, the author made representations to the then Chief Commissioner for all the Special Areas in England and Wales—the late Sir P. Malcolm Stewart—that the idle and semi-idle coal mines, not only in Cumberland but in Durham and Tyneside and in South Wales, should be got into full production on the following—or some similar—basis:

That there should be established a Government-financed Coal Reserves Corporation under which mine-owners would be guaranteed prices (for each of the chief grades of coal) which in the average would cover actual production costs (more or less) for all coal delivered to that Corporation's dumps—reasonably adjacent to their collieries; and subject to an undertaking by this Corporation that *none of the coal so purchased by it would be sold commercially excepting at a mutually agreed premium*; and the figure 20 per cent was suggested as a basis for discussion.

Under such an arrangement, the mine-owners would have sold the usual amount of coal commercially at not lower than the price obtainable from the Corporation; but with the market price free to rise to the level at which the Corporation could sell. It would have been from these commercial sales that the mine-owners would have got their profits with prices probably averaging a level somewhere near the mid-point between the Corporation's buying price and its selling price. Sites were tentatively selected for dumps in valleys that were already served by short branch railway lines. It was proposed that special mobile stacking gear should be employed, and that each dump should be turfed over and made proof against pilfering. If, in the event, stocks grew to burdensome proportions, the intake of new employees into the mining industry would be appropriately discouraged so as gradually to reduce future output. It was recognized that there would be difficulties; but it was believed that it would have been worth while to overcome these.

Sir Malcolm Stewart favoured this idea; but it was not adopted by the Government. If that recommendation had been put into effect in 1936, in West Cumberland, Durham and Tyneside, and South Wales, it could have resulted in many tens of millions of tons of coal being held in easily accessible reserve

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when war broke out in September 1939. Moreover, such action would have gone a long way towards solving the then problem of unemployment not only in the Special Areas but elsewhere. Instead, the nation continued to maintain hundreds of thousands of potential producers in demoralizing idleness at levels of mere subsistence; and, with the outbreak of war, there was a serious coal shortage—which, if less acute, still persists.

IRON ORE AND LEAD ORE

Similar proposals were made in respect of iron—and lead—ores; or, rather for pig-iron and pig-lead; but in the case of iron, it was suggested that the greater part of any that might be sold to the Corporation should be held as a strategic reserve—not to be re-sold excepting with the special approval of the Government. That recommendation was made because known deposits of the high-grade haematite ore for which Cumberland is noted were limited to a relatively small prospective yield; and it seemed prudent to consume imported haematite ore so long as this could be obtained—rather than to hasten the exhaustion of the nation's natural resources in this valuable wasting asset.

COMPREHENSIVE RESERVES ADVOCATED IN 1939

In January 1939, Messrs. Allen and Unwin published the author's *National Reserves for Safety and Stabilization*¹ in which it was first advocated that there should be established a national Price Stabilizing Corporation to stand ready to operate in respect of a very wide range of basic products essential to Britain's economy—especially imported products. This work had an endorsing Preface by Mr. R. F. Harrod; and, in his Prefacing Opinion to this later book he quotes something of what he said in 1939.

Press reactions may be gleaned from the following excerpts:

The Times: All will agree with Mr. Harrod that Mr. Grondona's proposals should receive widespread and immediate attention.

The Financial Times (in a leading article): Excellent in conception, this proposal provides a sound and practical basis for policy.

The Economist: Mr. Grondona's scheme would require the fixing not of prices but of a reasonable range in their movement. . . . It has

¹ *National Reserves for Safety and Stabilization* can be obtained from George Allen & Unwin Ltd.—price 7/6.

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been very fully thought out (with a very shrewd perception of the reasonable criticisms which might be levelled against it) and it offers a plan of action to solve a problem which is peerless in its complexities and world importance.

In 1940, the author accepted an invitation to address members of the Royal Empire Society on this subject, after which *The Times* devoted a long leading article to his then proposals. The following are excerpts from that editorial:

Mr. J. M. Keynes has suggested that the Government, by providing free storage and other inducements, should encourage dealers to hold large stocks which would act as a kind of reservoir and help to maintain an even flow of commodities on to the market. In all the circumstances this would hardly be a sufficient remedy.... Perhaps a more attractive proposal is that put forward by Mr. St. Clare Grondona who suggests the establishment of what might be called a Prices Equalization Corporation which would iron out short-term fluctuations in the prices of certain primary products in the same way as the Exchange Equalization Fund irons out similar fluctuations in sterling prices of foreign currencies. . . . This work should be taken in hand now when everyone is animated by a common purpose, not put off till after the war when sectional and selfish considerations will commence to reassert their old dominance. There could be no more effective reply to gibes about pluto-democracy than to show by practical action of this kind that democracy is capable of reconciling the claims of individual and national liberty with those of economic security.

SPECIAL WARTIME PROPOSAL

On 3rd April, 1941, at the invitation of the Institute of Export, the author gave a further address—under the chairmanship of Sir P. Malcolm Stewart. In this he drew attention to the fact that the greater part of British overseas investments (with a then value of some £4,000 million, of which £2,500 million worth were within the Commonwealth) were in primary-producing countries outside the zones of actual hostilities. *All such securities had then been taken over by the Treasury.* The author pointed to the fact that all these debtor-primary-producing countries were seriously embarrassed in their internal economies owing to the inaccessibility of markets caused by the war. He therefore suggested that the British Price Stabilizing Corporation whose establishment he had advocated should set up branches

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and reception depôts within the territories of appropriate debtor nations—as a special wartime measure; and that the P.S.C. set its “local” valorizing indices in terms of local currencies; then standing ready to buy at (say) 10 per cent below index and (when it had acquired stocks) to sell (locally and only during the period of the war) at 10 per cent above index.

In order to obtain local currency for this purpose, he suggested, H.M. Treasury should accept payment of an appropriate value of the debt of any country (in which the P.S.C. was to operate) in that nation's currency; when such currency would be passed to the P.S.C. (as required) to enable it to operate on the spot. Applying this proposal illustratively to Argentina—which then owed over £200 million in Great Britain—he said:

Let us suppose the P.S.C. set a maize index at the peso-equivalent of 5s. per cwt., and undertook to buy on delivery at (the equivalent of) 4s. 6d.; and to sell (locally) at (the equivalent of) 5s. 6d. The strong probability is that there would be considerable sales to the P.S.C.: and it would seem equally *improbable* that it would be called upon to sell—during the war. Thus, if (say) 50 million cwts. were offered to the P.S.C. in one year, it would need some £12 million worth of pesos—to be paid to the growers. Therefore H.M. Treasury would pass that value of Argentine Bonds to the P.S.C. for disposal—as and when required—to the Argentine Treasury for redemption at their face-value-equivalent in pesos, to be exchanged for maize—or for wheat or wool or for any other product brought within the scheme. For its part, the Argentine Government could have floated internal loans to obtain the pesos necessary for such transactions; and, thereby, that nation's external debt would have been transformed (by these amounts) into *internal* debt—a much more satisfactory state of affairs from Argentina's point of view. In short, such amounts of debt would have been most conveniently paid in commodities of which the Argentine then wished to be rid, and the ownership of which Great Britain is most anxious to acquire.... By such methods it would seem likely that, before this war ends, the British Price Stabilizing Corporation might well have secured the ownership—on favourable terms—of anything from £500 million upwards worth of vitally important basic products in the several debtor-countries outside the war zone.

Later in his address Mr. Grondona said:

We all have a fairly good idea of what the position will be throughout Europe immediately after hostilities cease, when all the countries involved in this war will be gravely impoverished and desperately short of all such foodstuffs and raw materials as the

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Corporation would then own; yet there will be a general absence of purchasing power, and exporting industries and transport will have been disorganized as never before.

It would seem that the only practical way then to re-establish external trade by most of these countries would be by the issue of gold loans by the U.S.A.; but, if this were done, competition for raw products from overseas would become unbridled and prices would soar—thus robbing such loans of their proper purchasing power and giving a false stimulus to the production of such goods—with a world slump as a probable aftermath.

In striking contrast, if—on the cessation of hostilities—Great Britain were the owner, by its Price Stabilizing Corporation, of immense stocks of essential products, her position would be strong indeed—economically and politically strong. And we should be in a position to carry out Mr. Churchill's recent promise that "with the shattering of Nazi power, we shall bring to the peoples of Europe immediate food, raw materials, freedom and peace."

[Printed copies of this address, in full, were sent to the Prime Minister and to appropriate Cabinet Ministers; and they were widely circulated among other Parliamentarians and in other quarters.]

It seems hardly necessary to point out that, if these proposals to exchange a great part of our overseas securities for stocks of essential products had been adopted—a policy with which the U.S.A. would probably then have been in agreement—the post-war difficulties that Great Britain has had to overcome would have been greatly reduced. In the event, dollar loans (and gifts) took the place of gold loans; and prices of all essential commodities rose steeply—to a far greater extent than would have been the case if a British Price Stabilizing Corporation had held such large stocks in reserve as could have been acquired if the proposal made in 1941 had then been put into effect. That these high prices gave a false stimulus to production is strikingly evidenced by the huge burdensome surpluses that have been built up (on an entirely artificially contrived basis) especially in the U.S.A. and Canada; and that a postwar slump in commodity prices has been held off is due chiefly to such official price-support policies (which have led to the surpluses and to devastating inflation) and, to a less extent, to strategic stockpiling.

And many of Great Britain's most valuable overseas securities (e.g., Argentine Railways stock) were later sacrificed on most disadvantageous terms.

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